



# **FEDERAL BUREAU OF PRISONS ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011**

U.S. Department of Justice  
Office of the Inspector General  
Audit Division

Audit Report 12-09  
January 2012



# FEDERAL BUREAU OF PRISONS ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011

## OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the Federal Bureau of Prisons (BOP) for the fiscal years (FY) ended September 30, 2011, and September 30, 2010. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed BOP's audit in accordance with U.S. generally accepted government auditing standards. The audit resulted in an unqualified opinion on the FY 2011 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2010, the BOP also received an unqualified opinion on its financial statements (OIG Report No. 11-14).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors did not identify any significant deficiencies in the FY 2011 *Independent Auditors' Report on Internal Control over Financial Reporting*. Additionally, no instances of non-compliance with applicable laws and regulations, and the *Federal Financial Management Improvement Act of 1996* were identified during the audit in the FY 2011 *Independent Auditors' Report on Compliance and Other Matters*.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on BOP's financial statements, conclusions about the effectiveness of internal control, conclusions on whether BOP's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 8, 2011, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

This page intentionally left blank.

**FEDERAL BUREAU OF PRISONS  
ANNUAL FINANCIAL STATEMENTS  
FISCAL YEAR 2011**

**TABLE OF CONTENTS**

	<u>PAGE</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
INDEPENDENT AUDITORS' REPORTS	
REPORT ON FINANCIAL STATEMENTS.....	25
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.....	27
REPORT ON COMPLIANCE AND OTHER MATTERS .....	29
PRINCIPAL FINANCIAL STATEMENTS AND RELATED NOTES	
CONSOLIDATED BALANCE SHEETS.....	32
CONSOLIDATED STATEMENTS OF NET COST .....	33
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION.....	34
COMBINED STATEMENTS OF BUDGETARY RESOURCES.....	36
NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS .....	37
REQUIRED SUPPLEMENTARY INFORMATION	
CONSOLIDATED DEFERRED MAINTENANCE .....	69
COMBINING STATEMENTS OF BUDGETARY RESOURCES BROKEN DOWN BY MAJOR BUDGET ACCOUNT .....	70
OTHER ACCOMPANYING INFORMATION	
TREASURY SYMBOL MATRIX .....	75
PRISONER CAPACITY REQUIREMENTS .....	76
OPERATING LEASES AS OF SEPTEMBER 30, 2011 .....	77

This page intentionally left blank.

# U.S. DEPARTMENT OF JUSTICE

## BUREAU OF PRISONS

MANAGEMENT'S  
DISCUSSION & ANALYSIS  
(UNAUDITED)



This page intentionally left blank.



**U.S. Department of Justice  
Bureau of Prisons  
Management's Discussion & Analysis**

**MISSION**

It is the mission of the Federal Bureau of Prisons to protect society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, cost-efficient, and appropriately secure, and that provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens.

**ORGANIZATION STRUCTURE**

The Bureau of Prisons (BOP) encompasses the activities of the Trust Fund and appropriated activities. It does not include the Federal Prison Industries, Inc. (FPI) (also called UNICOR) which is a separate reporting component of the Department of Justice (DOJ).

As of September 30, 2011, the **BOP** was comprised of 117 institutions, six regional offices, two staff training centers, 28 community corrections offices, and a Central Office, or headquarters, in Washington, D.C. The Executive Office of the Director provides overall direction for agency operations, with nine central office divisions, each led by a member of the BOP's Executive Staff, providing operational and policy direction. The Central Office manages the security and correctional operations of the BOP, the medical and psychiatric programs, and food and nutritional programs. Additionally, the Central Office plans for the acquisition, construction, staffing of new facilities, oversees budget development and execution, contracting, property management, and financial management. Additional operational support and direction are provided for community corrections and detention programs, legal counsel, public affairs, information resources, and human resources management.

The **National Institute of Corrections (NIC)**, one of the BOP's Salaries and Expenses activities, provides technical assistance and training for state and local correctional agencies across the nation. The NIC supports the BOP's goal of building partnerships with community, state, local, and other entities. The **Program Review Division (PRD)** performs oversight over the BOP's programs through a rigorous review process that measures program effectiveness and adequacy of internal controls. The **Administration Division (ADM)** provides resources and support for the BOP to perform effectively and efficiently. This includes the development of budget requests, the stewardship of financial resources, and procurement and property management; the coordination and analysis of information related to capacity; the selection of sites for new prison construction; the design and construction of new correctional facilities; and the renovation and maintenance of existing facilities. The **Correctional Programs Division**



## *Management's Discussion & Analysis*

---

(CPD) develops activities and programs designed to appropriately classify inmates, eliminate inmate idleness, and develop the skills necessary to facilitate the successful reintegration of inmates into their communities upon release. The **Health Services Division** (HSD) has responsibilities in medical care, safety and environmental health, and food services. The health care mission is to deliver necessary health care to inmates. The occupational safety and environmental health mission is to provide a safe and healthy environment for staff and inmates. The food service mission is to provide healthy and appetizing meals that meet the needs of the general population. The **Human Resource Management Division** (HRMD) is designed to oversee and administer personnel policy and programs developed to address the needs of Bureau employees covering all areas of personnel management. The **Industries, Education, and Vocational Training Division** (IE&VT) encompasses the FPI program and the Bureau's Education and Inmate Transition Program. The Education Branch oversees the Bureau's recreation programs and the Bureau's education and vocational training programming. The Inmate Transition Branch works to enhance inmates' post-release employment opportunities and also oversees the Bureau's Volunteer Management Program. The **Information, Policy and Public Affairs Division** (IPPA) collects, develops, and disseminates useful, accurate, and timely information to BOP staff, DOJ, Congress, other government agencies, and the public. The **Office of General Counsel** (OGC) provides effective legal advice, assistance, and representation to officials of the Federal Bureau of Prisons.

The **Trust Fund** was created in the early 1930s to allow inmates a means to purchase additional products and services above the necessities provided by appropriated Federal funds (e.g., personal grooming products, snacks, postage stamps, and telephone services). The Trust Fund is a self-sustaining trust revolving fund account that is funded through sales of goods and services to inmates.

The BOP is subdivided into **six geographical regions** (see Attachment A), each managed by a Regional Director. Regions are staffed with personnel who provide operational guidance and support to the field locations in management and administrative areas such as financial management, budgeting, technical assistance, personnel, and correctional management.

In the fiscal year 2011, the BOP operated 117 institutions spanning four main security levels in its efforts to provide secure and cost effective housing to a broad spectrum of offenders. Institutions are assigned a security classification based in part on the physical design of each facility. The four security levels are minimum, low, medium, and high. In addition, **administrative** facilities are institutions with special missions, including: detention of non-citizen or pretrial offenders, treatment of inmates with serious or chronic medical problems, and containment of extremely violent or dangerous inmates. Administrative facilities are capable of housing inmates of all security categories.



## **FINANCIAL STRUCTURE**

The BOP was provided two appropriations by Congress for fiscal year 2011: **Salaries and Expenses** and **Buildings and Facilities**. The Salaries and Expenses (S&E) portion includes annual and multi-year appropriations, while Buildings and Facilities (B&F) is a no-year appropriation. The **Trust Fund** receives spending authority from offsetting collections for revenue earned through the sale of goods and services.

The S&E appropriations are annual and multi-year appropriations that support costs associated with the care and custody of all Federal offenders in Federal institutions and contract facilities, and the maintenance and operational costs associated with the upkeep of Federal facilities, regional offices, staff training centers, and administrative offices.

The B&F appropriation is a no-year appropriation that supports site planning, acquisition, and construction of new facilities. The B&F appropriation also supports the remodeling, renovating, and equipping of existing facilities for penal and correctional use.

## **ANALYSIS OF FINANCIAL STATEMENTS**

Highlights of the financial and budgetary information presented in the financial statements follows.

**Assets:** The BOP's Consolidated Balance Sheets as of September 30, 2011, shows \$7.897 billion in total assets, a decrease of \$91 million from the previous year's total assets of \$7.988 billion. General Property, Plant and Equipment, Net was \$6.387 billion, which represents 81 percent of total assets.

**Liabilities:** Total BOP liabilities were \$1.976 billion as of September 30, 2011, an increase of \$100 million from the previous year's total liabilities of \$1.876 billion. Actuarial FECA liabilities were \$761 million and Accounts Payable was \$405 million, which represents 39 percent and 20 percent of total liabilities respectively.

**Net Cost of Operations:** The Consolidated Statements of Net Cost presents the BOP's gross and net cost by strategic goals 2 and 3. The net cost of the BOP's operations totaled \$6.834 billion for the fiscal year ended September 30, 2011, an increase of \$178 million (3 percent) from the previous year's net cost of operations of \$6.656 billion.



## *Management's Discussion & Analysis*

---

Consistent with the Government Performance and Results Act (GPRA), the BOP has a formal strategic planning process that feeds into the Department's strategic plan. The BOP sets goals, measures performance, and reports annually on its actual performance compared to its goals. The Office of Management and Budget (OMB) Circular A-136 and the Statement of Federal Financial Accounting Standard (SFFAS) No. 15, "Management's Discussion and Analysis – Standards," require agencies to present the most significant performance measures related to information on major goals from the agency's strategic plan. Reported measures are also linked to the DOJ Strategic Goal 2, "Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People," and Strategic Goal 3, "Ensure the Fair and Efficient Administration of Justice." Tables 1 and 2 summarize the activity on the BOP's Consolidated Statements of Changes in Net Position and Consolidated Statements of Net Cost. The tables show the funds provided to the BOP for the fiscal years ended September 30, 2011 and 2010 for the purpose of achieving the strategic goals.



**Table 1. Source of BOP Resources  
(Dollars in Thousands)**

Source	FY 2011	FY 2010	Change %
<b>Earned Revenue</b>	\$ 385,676	\$ 372,199	4%
<b>Budgetary Financing Sources</b>			
Appropriations Received	6,394,155	6,205,386	3%
Appropriations Transferred-In/Out	(1,834)	(818)	124%
<b>Other Financing Sources</b>			
Donations and Forfeitures of Property	226	340	-34%
Transfers-In/Out Without Reimbursement	1,413	5,394	-74%
Imputed Financing From Costs Absorbed by Others	262,524	216,705	21%
<b>Total</b>	<b>\$ 7,042,160</b>	<b>\$ 6,799,206</b>	<b>4%</b>

**Table 2. How BOP Resources are Spent  
(Dollars in Thousands)**

Strategic Goal (SG)	FY 2011	FY 2010	Change %
<b>SG 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People</b>			
Gross Cost	\$ 6,613	\$ 6,860	
Less: Earned Revenue	-	-	
<i>Net Cost</i>	\$ 6,613	\$ 6,860	-4%
<b>SG 3: Ensure the Fair and Efficient Administration of Justice</b>			
Gross Cost	\$ 7,213,365	\$ 7,021,759	
Less: Earned Revenue	385,676	372,199	
<i>Net Cost</i>	\$ 6,827,689	\$ 6,649,560	3%
<b>Total Gross Cost</b>	<b>\$ 7,219,978</b>	<b>\$ 7,028,619</b>	
<b>Less: Total Earned Revenue</b>	<b>385,676</b>	<b>372,199</b>	
<b>Total Net Cost of Operations</b>	<b>\$ 6,834,302</b>	<b>\$ 6,656,420</b>	<b>3%</b>



## **2011 Financial Highlights**

### **Strategic Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People**

Strategic Goal 2, Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People, includes preventing, suppressing and intervening in crimes against children. The Adam Walsh Child Protection and Safety Act (Walsh Act) includes a provision for the civil commitment of sexually dangerous persons due for release from BOP custody. To initiate court commitment proceedings, the BOP must certify the inmate as a “sexually dangerous person” as specified in the statute. The BOP does not have an existing performance measure for its Walsh Act efforts.

### **Strategic Goal 3: Ensure the Fair and Efficient Administration of Justice**

Strategic Goal 3, Ensure the Fair and Efficient Administration of Justice, includes maintaining secure, safe, and humane correctional institutions for sentenced offenders placed in custody. The BOP develops and operates correctional programs that seek a balanced application of the concepts of punishment and deterrence with opportunities to prepare the offender for successful reintegration into society. Through the NIC, the BOP provides assistance to international, Federal, state, and local correctional agencies. The BOP conducts its incarceration function using a range of the BOP operated institutions of varying security levels, as well as the use of privately operated facilities, which includes half-way houses. In addition, the BOP houses all Washington, D.C. adult felons sentenced to a term of confinement. In FY 2011, Goal 3 net costs increased by 3 percent. This is due primarily to the 7,541 increased number of inmates in the BOP's custody.



## **PERFORMANCE INFORMATION**

### **Data Reliability And Validity**

The BOP views data reliability and validity as critically important in the planning and assessment of our performance. As such, this document includes a discussion of data validation, verification, and any identified data limitations for each performance measurement presented. Each reporting component ensures that data reported meets the following criteria:

At a minimum, performance data are considered reliable if transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. Performance data need not be perfect to be reliable, particularly if the cost and effort to secure the best performance data possible will exceed the value of any data so obtained.

## **FY 2011 REPORT ON SELECTED RESULTS**

**STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People.** .1 percent of the BOP's Net Costs support this Goal.

**STRATEGIC GOAL 3: Ensure the Fair and Efficient Administration of Justice.** 99.9 percent of the BOP's Net Costs support this Goal.

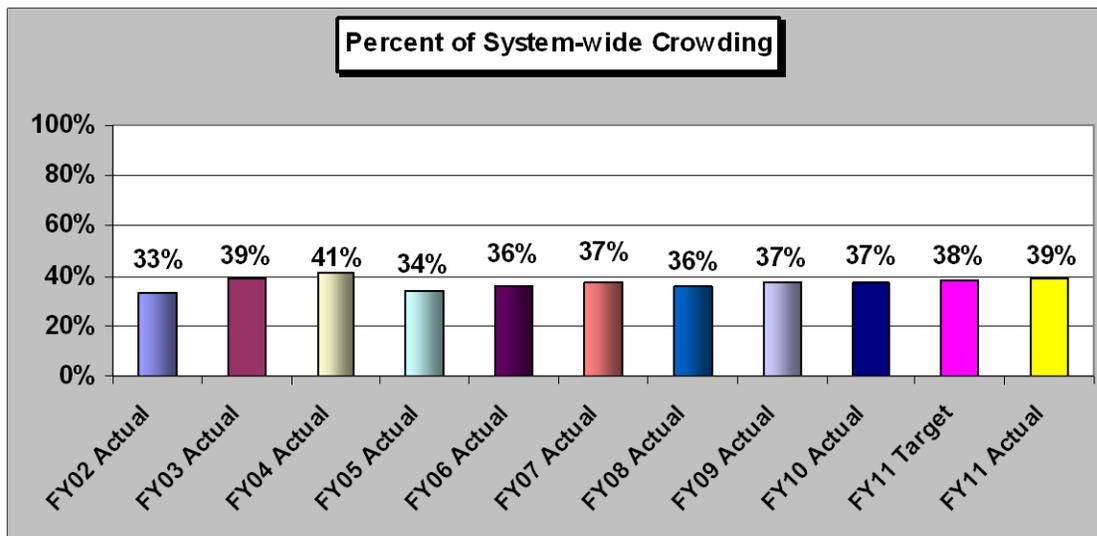


*Management's Discussion & Analysis*

---

**Performance Measure:** Percent of System-wide Crowding in Federal Prisons (% over rated capacity)

**Background/Program Objectives:** The BOP constantly monitors and reports weekly on facility capacity, population growth, and prisoner crowding. As federal inmate population levels are projected to increase and continue to exceed the rated capacity of the BOP, every possible action is being taken to protect the community, while keeping institutional crowding at manageable proportions to ensure that federal inmates continue to serve their sentences in a safe and humane environment.



**FY 2011 Target:** 38%

**FY 2011 Actual:** 39%

**Discussion of FY 2011 Results:** During FY 2011, the overall BOP population increased by 7,541. The target crowding level was based upon a projected population increase of 6,034 inmates during FY 2011. Further, the projected population increase for BOP institutions was 2,695 and the actual increase was 4,645. During FY 2011, the BOP was able to increase the rated capacity by 830 of the 958 planned beds, by bringing on-line the remaining beds at FCI McDowell and the minimum security satellite camp at FCI Mendota. The BOP was not able to achieve the target due to greater than expected inmate growth and lack of funding to bring on-line the medium security beds at FCI Mendota.



## *Management's Discussion & Analysis*

---

**Data Definitions:** The crowding levels are based on a mathematical ratio of the number of inmates divided by the rated capacity of the institutions at each of the specific security levels. The percent of crowding represents the rate of crowding that is over rated capacity. For example, if an institution had a number of inmates that equaled the rated capacity, this would represent 100% occupancy, which equals 0% crowding. Any occupancy above 100% represents a percentage of crowding. System-wide: represents all inmates in BOP facilities and all rated capacity, including secure and non-secure facilities, low, medium, and high security levels, as well as administrative maximum, detention, medical, holdover, and other special housing unit categories. Minimum security facilities: non-secure facilities that generally house non-violent, low risk offenders with shorter sentences. These facilities have limited or no perimeter security fences or armed posts. Low security facilities: double-fenced perimeters, mostly dormitory housing, and strong work/program components. Medium security facilities: strengthened perimeters, mostly cell-type housing, work and treatment programs and a lower inmate-to-staff ratio than low security facilities. High security facilities: also known as U.S. Penitentiaries, highly secure perimeters, multiple and single cell housing, lowest inmate-to-staff ratio, close control of inmate movement.

**Data Collection and Storage:** Data are gathered from several computer systems. Inmate data are collected on the BOP on-line system (SENTRY). The BOP also utilizes a population forecast model to plan for future contracting and construction requirements to meet capacity needs.

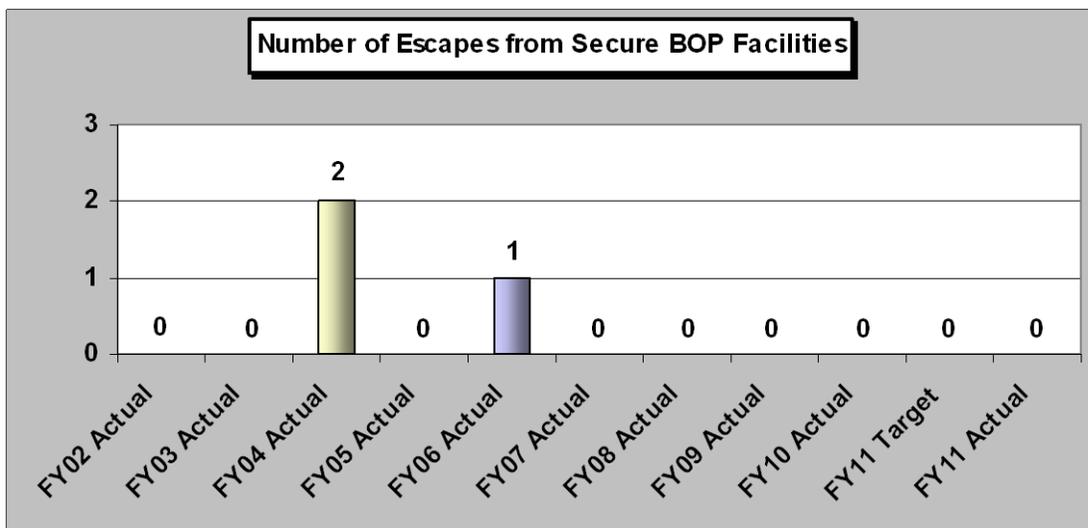
**Data Validation and Verification:** Subject matter experts review and analyze population and capacity levels daily, both overall and by security level. BOP institutions print a SENTRY report, which provides the count of inmates within every institution cell house. The report further subdivides the cell houses into counting groups, based on the layout of the institution. Using this report, institution staff conduct an official inmate count five times per day to confirm the inmate count within SENTRY. The BOP Capacity Planning Committee (CPC), comprised of top BOP officials, meets bi-monthly to review, verify, and update population projections and capacity needs for the BOP. Offender data are collected regularly from the Administrative Office of the U.S. Courts by the BOP Office of Research and Evaluation in order to project population trends. The CPC reconciles bed space needs and crowding trends to ensure that all available prison space is fully utilized, both in federal prisons and in contract care.

**Data Limitations:** None known at this time.



**Performance Measure:** Ensure Zero Escapes from Secure BOP Facilities

**Background/Program Objectives:** The BOP significantly reduces the possibility of escape with long-term emphasis on security enhancements, physical plant improvements, enhanced training, and increased emphasis on staff supervision of inmates. In the event an escape does occur, the BOP will initiate immediate apprehension activities (escape posts, etc.) within the community, until the outside agency having jurisdiction assumes investigative and apprehension responsibilities.



**FY 2011 Target:** 0

**FY 2011 Actual:** 0

**Discussion of FY 2011 Results:** During FY 2011, the BOP had no escapes from secure BOP facilities.

**Data Definitions:** All BOP institutions are assigned a security classification level based in part on the physical design of each facility. There are four security levels: minimum; low; medium; and high. Additionally, there is an administrative category for institutions that house a variety of specialized populations such as pre-trial, medical, mental health, sex offenders, and U.S. Department of Homeland Security, Immigration and Customs Enforcement (ICE) detainees. Low, medium, and high security levels and administrative institutions are defined as “secure,” based on increased security features and type of offenders designated.



## *Management's Discussion & Analysis*

---

***Data Collection and Storage:*** Data for this measure are taken from the Significant Incident Reports (previously recorded on BOP form 583) submitted by the institution where the incident occurred. This has become an automated process, which went nationwide in August of 2009, known as the TruIntel system. The data is captured in data sets and made available to the Office of Research and Evaluation, which analyzes the data and makes the escape information available through the Management Analysis Portal, specifically the Institution Management Dashboard.

***Data Validation and Verification:*** The most senior managers in the agency conduct annual reviews of institution performance including escapes. Additionally, during Program Reviews (which are conducted at least every three years), annual operational reviews, and Institution Character Profiles (which are conducted every three years), reviews of escapes (including attempts) are conducted, along with other inmate misconduct.

***Data Limitations:*** None known at this time.

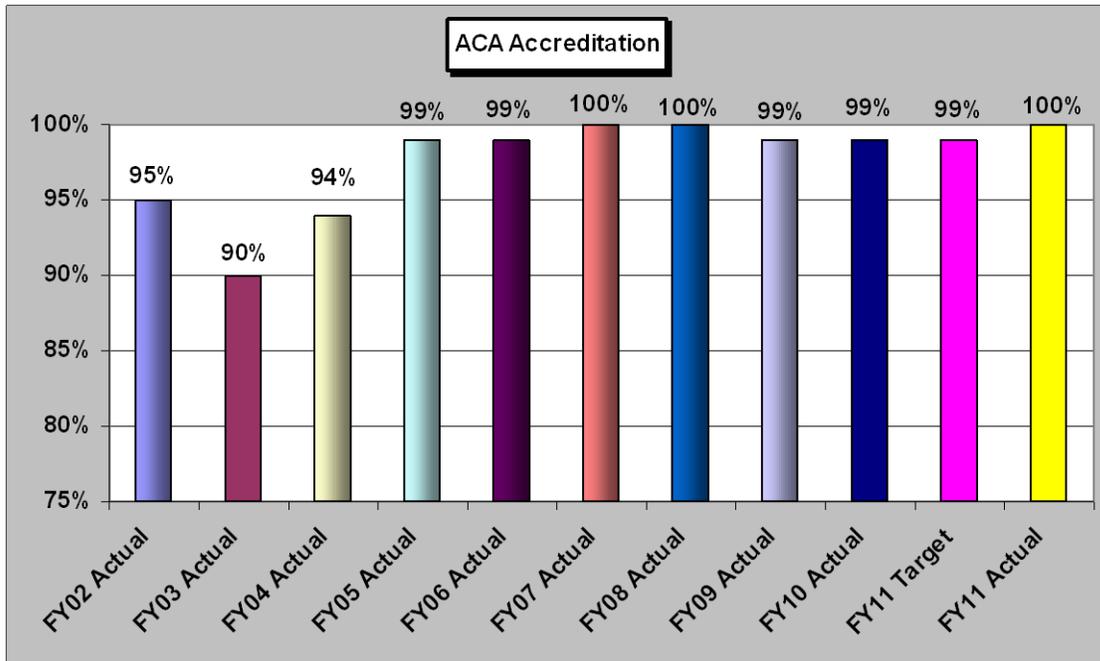


*Management's Discussion & Analysis*

---

**Performance Measure:** Inspection Results - Percent of Federal Facilities with American Correctional Association (ACA) Accreditations

**Background/Program Objectives:** The BOP has the highest regard for human rights and public safety. Therefore, it strives to maintain facilities that meet the accreditation standards of several professional organizations including the ACA. ACA auditors conduct on-site visits to BOP institutions during initial accreditation and re-accreditations. Institutions' ACA accreditation must be renewed tri-annually.



**FY 2011 Target: 99%**  
**FY 2011 Actual: 100%**

**Discussion of FY 2011 Results:** All of the BOP's one hundred fifteen prisons eligible to participate in the accreditation program achieved or maintained their accreditation. New institutions (FCI McDowell, WV and FCI Mendota, CA) are not considered eligible for accreditation status until approximately 2 years after initial activation.

**Data Definitions:** Initial ACA Accreditation is awarded when an institution demonstrates 100% compliance with mandatory ACA standards, and substantial compliance with nonmandatory ACA standards. The BOP's policy requires all institutions to maintain ACA Accreditation.



## *Management's Discussion & Analysis*

---

***Data Collection and Storage:*** Once an audit is completed, an electronic report is received from ACA. These reports are maintained in GroupWise shared folders by institutions, and in WordPerfect files.

***Data Validation and Verification:*** On an annual basis, Program Review personnel develop a schedule for initial accreditation and re-accreditation of all eligible BOP facilities to ensure reviews are conducted on a regular and consistent basis. BOP policy requires institutions to initially be ACA accredited within two years of activation. Therefore, non-accredited institutions that have been activated for less than two years are excluded from calculations regarding this performance measure.

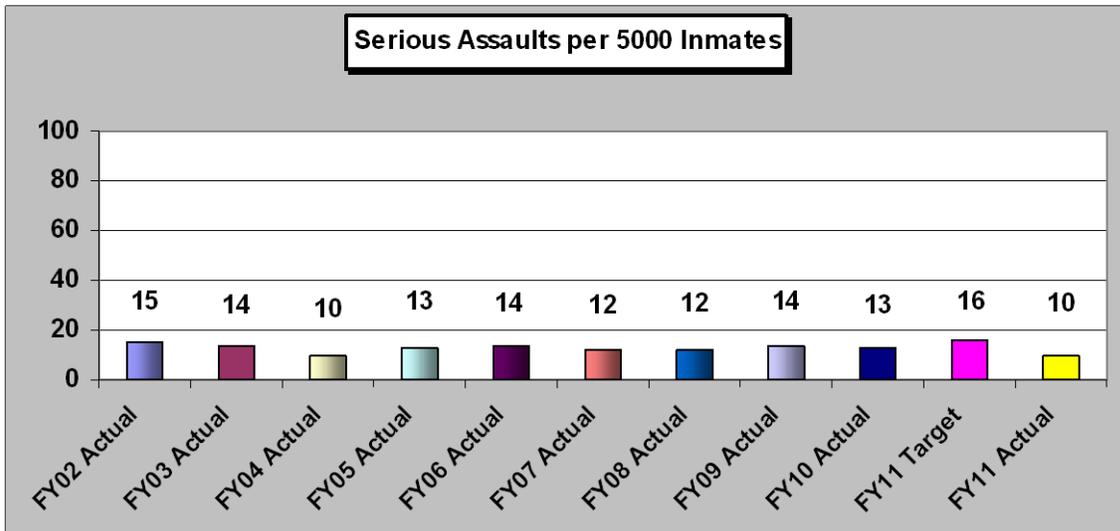
Subject matter experts review report findings to verify accuracy and develop any necessary corrective measures. The ACA accreditation meeting minutes, identifying the institutions receiving accreditation and re-accreditation, are on file and maintained by the BOP Accreditation Manager.

***Data Limitations:*** None known at this time.



**Performance Measure:** Rate of Serious Assaults in Federal Prisons

**Background/Program Objectives:** Every reasonable precaution is taken to ensure that inmates are provided with a safe and secure environment in facilities according to their needs. While it is the objective of the DOJ and BOP to eliminate all assaults, the target reflects projections based on historical data and observed trends. This data represents the rate of adjudicated, serious assaults on inmates over a twelve month period, per 5,000 inmates. Due to the time required to adjudicate allegations of assault, there is a lag between the occurrence of the incident and reporting guilty findings. Accordingly, the figure reported represents guilty findings for incidents that occurred during the twelve month period ending the last month of the previous quarter.



**FY 2011 Target:** 16/5,000

**FY 2011 Actual:** 10/5,000

**Discussion of FY 2011 Results:** The FY 2011 target was met. The actual rate of serious assaults was 10 per 5,000 inmates, lower than the target rate of 16 per 5,000 inmates for FY 2011.

**Data Definition:** Reported assault rate is based on guilty findings of serious assaults. Serious assaults involve serious physical injury being attempted or carried out by an inmate. They include sexual assaults as well as armed assaults on the institution's secure perimeter.



## *Management's Discussion & Analysis*

---

***Data Collection and Storage:*** Data is collected from the BOP's operational computer system (SENTRY), specifically the Chronological Disciplinary Record (CDR) module, which records all disciplinary measures taken with respect to individual inmates. This data is maintained and stored in the BOP's management information system (Key Indicators and the Institution Management Dashboard), which permits retrieval of data in an aggregated manner. The data represents guilty findings of serious assaults on inmates.

***Data Validation and Verification:*** The most senior managers in the agency conduct annual reviews of institution performance including assaults and other misconduct. Additionally, during Program Reviews (which are conducted at least every three years), annual operational reviews, and Institution Character Profiles (which are conducted every three years), reviews of assaults and other misconduct patterns are accomplished. The SENTRY system is the BOP's operational data system, whereas Key Indicators aggregates the SENTRY data and provides an historical perspective.

***Data Limitations:*** The data represents the number of guilty findings for assaults over a twelve-month period per 5,000 inmates. Due to the time required to adjudicate allegations of assault, there is a lag between the occurrence of the assault and reporting of guilty findings. Due to accelerated reporting requirements (within 15 days of quarter and fiscal year end) and to provide a more accurate assault rate, the BOP is using 12 months of completed/adjudicated CDR data for each quarter and end of fiscal year reporting, showing 12 month periods ending the last month of the previous quarter.



## **ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE**

### **Federal Managers' Financial Integrity Act of 1982**

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act or FMFIA) provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The Integrity Act requires Federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The Integrity Act also requires agencies to annually assess and report on the internal controls that protect the integrity of Federal programs (FMFIA Section 2) and whether financial management systems conform to related requirements (FMFIA Section 4).

Guidance for implementing the Integrity Act is provided through OMB Circular A-123. In addition to requiring agencies to provide an assurance statement on the effectiveness of programmatic internal controls and conformance with financial systems requirements, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting. The Department requires components to provide both of the assurance statements in order to have the information necessary to prepare the agency assurance statements.

### **FMFIA Assurance Statement**

The Director of the BOP provides Reasonable Assurance that management controls and financial systems met the objectives of Sections 2 and 4 of the FMFIA.

### **Controls**

The BOP has a management control and financial management systems review program as required by the FMFIA. The PRD facilitates, monitors, and evaluates the BOP's implementation of the FMFIA by coordinating management assessments, thereby providing a quality assurance mechanism for the program review process. The PRD conducts reviews for all BOP programs that examine compliance with laws, regulations, and policy. In addition, reviews examine the adequacy of controls, efficiency of operations, and effectiveness in achieving program results. During fiscal years 2011 and 2010, 35 and 32 Financial Management Program Reviews were conducted at field sites and the Central Office, respectively. The reviews covered the areas of Accounting, Budgeting, Laundry, Employee Organizations, Property Management, Commissary, and Warehouse.



## **Systems**

For fiscal year 2011, the BOP's official reports were generated from the Financial Management Information System (FMIS) General Ledger, Cost Reporting, and Expenditure and Allotment reporting facilities. The FMIS General Ledger is supported by the following other systems: SENTRY Property Management System; SENTRY Real Property Management System; Trust Fund Accounting and Commissary System; and National Finance Center Payroll System.

## **Improper Payments**

The Improper Payments Information Act (IPIA) requires a risk assessment in all programs to identify those that are susceptible to significant erroneous payments. Significant erroneous payments are defined by the OMB as annual erroneous payments in a program exceeding both 2.5 percent of program payments and \$10 million. Based on risk assessment comprised of Independent Audit Reports and Internal Control Reviews, in FY 2011, the BOP has determined there were no significant risk programs in which improper payments exceed both 2.5 percent of program payments and \$10 million.

## **FMFIA Section 2 – Material Weaknesses**

Management of the Bureau of Prisons is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. The BOP assessed its internal control over the effectiveness and efficiency of operations and compliance with the applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, as required by Section 2 of the FMFIA. Based on the results of this assessment, the BOP can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011, was operating effectively, except for one material weakness of system-wide prison crowding.

The BOP manages the continually growing Federal inmate population by contracting with the private sector and using State and local facilities for certain groups of low-security inmates, expanding existing institutions, and building new facilities. The continued use of these approaches is expected to allow the BOP to keep pace with the growing inmate population and gradually reduce the crowding rate, thereby ensuring safe and secure operations in facilities housing Federal inmates.



#### **FMFIA Section 4 – Material Nonconformances**

The BOP management is responsible for ensuring compliance with applicable laws and regulations. To ensure compliance, reviews are performed as discussed above. Specifically, the BOP performed a review of its financial management systems pursuant to Section 4 provisions of the FMFIA. No significant financial management non-conformance was found in this review.

#### **Federal Financial Management Improvement Act of 1996**

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to improve Federal financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires agencies to have financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report. The Federal Information Security Management Act (FISMA) states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures, or practices.

#### **FFMIA Compliance Determination**

During FY 2011, the BOP assessed its financial management systems for compliance with FFMIA and determined that they substantially comply with FFMIA. This determination is based on the results of testing performed for OMB Circular A-123, Appendix C. Consideration was also given to any issues identified during the BOP's financial statement audit.

#### **POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS**

##### **Crowding in Federal Prisons**

Most of the challenges affecting the BOP today relate to growth of the Federal inmate population. The BOP continues to rely on funding to build and acquire additional facilities to help manage its growing inmate population and reduce the crowding rate. With increasing Federal law enforcement efforts, the BOP is projecting population increases for the next several years.



## **IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT (IPERA) REPORTING**

In accordance with OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, and the Departmental guidance for implementing the Improper Payments Elimination and Recovery Act (IPERA), the Department implemented a top-down approach to assess the risk of significant improper payments across all five of the Department's mission-aligned programs, and to identify and recapture improper payments through a payment recapture audit program. The approach promotes consistency across the Department and enhances internal control related to preventing, detecting, and recovering improper payments. Because of the OMB requirement to assess risk and report payment recapture audit activities by agency programs, the results of the Department's risk assessment and recapture activities are reported at the Department-level only.

In accordance with the Departmental approach for implementing IPERA, the BOP assessed its activities for susceptibility to significant improper payments. The BOP also conducted its payment recapture audit program in accordance with the Departmental approach. The BOP provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2011 Performance and Accountability Report.

## **LIMITATIONS OF THE FINANCIAL STATEMENTS**

- The principal financial statements have been prepared to report the financial position and results of operations of the BOP, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the BOP in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



# U.S. DEPARTMENT OF JUSTICE

## BUREAU OF PRISONS

### INDEPENDENT AUDITORS' REPORTS



This page intentionally left blank.



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036-3389

## **Independent Auditors' Report on Financial Statements**

Acting Inspector General  
U.S. Department of Justice

Acting Director  
Federal Bureau of Prisons  
U.S. Department of Justice

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Prisons (BOP) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the BOP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BOP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Federal Bureau of Prisons as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.



Independent Auditors' Report on Financial Statements  
Page 2

The information in the *Other Accompanying Information* section is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2011, on our consideration of the BOP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 8, 2011



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036-3389

## **Independent Auditors' Report on Internal Control over Financial Reporting**

Acting Inspector General  
U.S. Department of Justice

Acting Director  
Federal Bureau of Prisons  
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Prisons (BOP) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 8, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the BOP is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the BOP's internal control over financial reporting by obtaining an understanding of the BOP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BOP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the BOP's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Independent Auditors' Report on Internal Control over Financial Reporting  
Page 2

This report is intended solely for the information and use of the BOP's management, the U.S. Department of Justice Office of the Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2011



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036-3389

## **Independent Auditors' Report on Compliance and Other Matters**

Acting Inspector General  
U.S. Department of Justice

Acting Director  
Federal Bureau of Prisons  
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Prisons (BOP) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 8, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the BOP is responsible for complying with laws, regulations, and contracts applicable to the BOP. As part of obtaining reasonable assurance about whether the BOP's fiscal year 2011 consolidated financial statements are free of material misstatement, we performed tests of the BOP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the BOP. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the BOP's financial management systems did not substantially comply with the (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.



Independent Auditors' Report on Compliance and Other Matters  
Page 2

This report is intended solely for the information and use of the BOP's management, the U.S. Department of Justice Office of the Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2011

# U.S. DEPARTMENT OF JUSTICE

## BUREAU OF PRISONS

### PRINCIPAL FINANCIAL STATEMENTS AND RELATED NOTES





U.S. Department of Justice  
Bureau of Prisons  
Consolidated Balance Sheets  
As of September 30, 2011 and 2010

---

Dollars in Thousands	2011	2010
<b>ASSETS (Note 2)</b>		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 1,468,669	\$ 1,600,858
Accounts Receivable, Net (Note 6)	3,347	6,235
Other Assets (Note 9)	-	407
Total Intragovernmental	<u>1,472,016</u>	<u>1,607,500</u>
Cash and Monetary Assets (Note 4)	783	774
Accounts Receivable, Net (Note 6)	9,778	20,012
Inventory and Related Property, Net (Note 7)	18,180	16,474
General Property, Plant and Equipment, Net (Note 8)	6,387,481	6,334,726
Advances and Prepayments	3,899	3,845
Other Assets (Note 9)	4,473	4,662
<b>Total Assets</b>	<b><u>\$ 7,896,610</u></b>	<b><u>\$ 7,987,993</u></b>
<b>LIABILITIES (Note 10)</b>		
Intragovernmental		
Accounts Payable	\$ 37,098	\$ 33,303
Accrued Federal Employees' Compensation Act Liabilities	144,780	139,222
Other Liabilities (Note 13)	69,364	73,926
Total Intragovernmental	<u>251,242</u>	<u>246,451</u>
Accounts Payable	367,973	389,178
Actuarial Federal Employees' Compensation Act Liabilities	761,197	735,856
Accrued Payroll and Benefits	151,321	140,727
Accrued Annual and Compensatory Leave Liabilities	170,187	168,853
Environmental and Disposal Liabilities (Note 11)	62,722	61,902
Deferred Revenue	1,939	1,833
Contingent Liabilities (Note 14)	8,563	4,827
Capital Lease Liabilities (Note 12)	23,941	30,703
Other Liabilities (Note 13)	176,606	96,138
<b>Total Liabilities</b>	<b><u>\$ 1,975,691</u></b>	<b><u>\$ 1,876,468</u></b>
<b>NET POSITION</b>		
Unexpended Appropriations - All Other Funds	\$ 744,671	\$ 894,623
Cumulative Results of Operations - Earmarked Funds (Note 15)	83,557	69,853
Cumulative Results of Operations - All Other Funds	5,092,691	5,147,049
<b>Total Net Position</b>	<b><u>\$ 5,920,919</u></b>	<b><u>\$ 6,111,525</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 7,896,610</u></b>	<b><u>\$ 7,987,993</u></b>

---

*U.S. Department of Justice*

The accompanying notes are an integral part of these financial statements.



U.S. Department of Justice  
Bureau of Prisons  
Consolidated Statements of Net Cost  
For the Fiscal Years Ended September 30, 2011 and 2010

**Dollars in Thousands**

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 16)
		Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 2	2011	\$ -	\$ 6,613	\$ 6,613	\$ -	\$ -	\$ -	\$ 6,613
	2010	\$ -	\$ 6,860	\$ 6,860	\$ -	\$ -	\$ -	\$ 6,860
Goal 3	2011	1,629,744	5,583,621	7,213,365	15,252	370,424	385,676	6,827,689
	2010	1,513,891	5,507,868	7,021,759	12,903	359,296	372,199	6,649,560
Total	2011	<u>\$ 1,629,744</u>	<u>\$ 5,590,234</u>	<u>\$ 7,219,978</u>	<u>\$ 15,252</u>	<u>\$ 370,424</u>	<u>\$ 385,676</u>	<u>\$ 6,834,302</u>
	2010	<u>\$ 1,513,891</u>	<u>\$ 5,514,728</u>	<u>\$ 7,028,619</u>	<u>\$ 12,903</u>	<u>\$ 359,296</u>	<u>\$ 372,199</u>	<u>\$ 6,656,420</u>

Goal 2 Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People  
Goal 3 Ensure the Fair and Efficient Administration of Justice



U.S. Department of Justice  
Bureau of Prisons  
Consolidated Statements of Changes in Net Position  
For the Fiscal Year Ended September 30, 2011

**Dollars in Thousands**

	2011		
	Earmarked Funds	All Other Funds	Total
<b>Unexpended Appropriations</b>			
Beginning Balances	\$ -	\$ 894,623	\$ 894,623
<b>Budgetary Financing Sources</b>			
Appropriations Received	-	6,394,155	6,394,155
Appropriations Transferred-In/Out	-	(1,834)	(1,834)
Other Adjustments	-	(12,788)	(12,788)
Appropriations Used	-	(6,529,485)	(6,529,485)
<b>Total Budgetary Financing Sources</b>	<b>-</b>	<b>(149,952)</b>	<b>(149,952)</b>
<b>Unexpended Appropriations</b>	<b>\$ -</b>	<b>\$ 744,671</b>	<b>\$ 744,671</b>
<b>Cumulative Results of Operations</b>			
Beginning Balances	\$ 69,853	\$ 5,147,049	\$ 5,216,902
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	6,529,485	6,529,485
<b>Other Financing Sources</b>			
Donations and Forfeitures of Property	-	226	226
Transfers-In/Out Without Reimbursement	(72)	1,485	1,413
Imputed Financing From Costs Absorbed by Others (Note 17)	4,706	257,818	262,524
<b>Total Financing Sources</b>	<b>4,634</b>	<b>6,789,014</b>	<b>6,793,648</b>
<b>Net Cost of Operations</b>	<b>9,070</b>	<b>(6,843,372)</b>	<b>(6,834,302)</b>
<b>Net Change</b>	<b>13,704</b>	<b>(54,358)</b>	<b>(40,654)</b>
<b>Cumulative Results of Operations</b>	<b>\$ 83,557</b>	<b>\$ 5,092,691</b>	<b>\$ 5,176,248</b>
<b>Net Position</b>	<b>\$ 83,557</b>	<b>\$ 5,837,362</b>	<b>\$ 5,920,919</b>



U.S. Department of Justice  
Bureau of Prisons  
Consolidated Statements of Changes in Net Position (continued)  
For the Fiscal Year Ended September 30, 2010

**Dollars in Thousands**

	2010		
	Earmarked Funds	All Other Funds	Total
<b>Unexpended Appropriations</b>			
Beginning Balances	\$ -	\$ 1,106,922	\$ 1,106,922
<b>Budgetary Financing Sources</b>			
Appropriations Received	-	6,205,386	6,205,386
Appropriations Transferred-In/Out	-	(818)	(818)
Appropriations Used	-	(6,416,867)	(6,416,867)
<b>Total Budgetary Financing Sources</b>	-	(212,299)	(212,299)
<b>Unexpended Appropriations</b>	\$ -	\$ 894,623	\$ 894,623
<b>Cumulative Results of Operations</b>			
Beginning Balances	\$ 73,049	\$ 5,160,967	\$ 5,234,016
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	6,416,867	6,416,867
<b>Other Financing Sources</b>			
Donations and Forfeitures of Property	-	340	340
Transfers-In/Out Without Reimbursement	-	5,394	5,394
Imputed Financing From Costs Absorbed by Others (Note 17)	3,891	212,814	216,705
<b>Total Financing Sources</b>	3,891	6,635,415	6,639,306
<b>Net Cost of Operations</b>	(7,087)	(6,649,333)	(6,656,420)
<b>Net Change</b>	(3,196)	(13,918)	(17,114)
<b>Cumulative Results of Operations</b>	\$ 69,853	\$ 5,147,049	\$ 5,216,902
<b>Net Position</b>	\$ 69,853	\$ 6,041,672	\$ 6,111,525



U.S. Department of Justice  
Bureau of Prisons  
Combined Statements of Budgetary Resources  
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands	2011	2010
<b>Budgetary Resources</b>		
Unobligated Balance, Brought Forward, October 1	\$ 377,906	\$ 372,051
Recoveries of Prior Year Unpaid Obligations	4,539	6,845
Budget Authority		
Appropriations Received	6,394,155	6,205,386
Spending Authority from Offsetting Collections		
Earned		
Collected	384,112	374,407
Change in Receivables from Federal Sources	1,768	(2,005)
Change in Unfilled Customer Orders		
Advance Received	(201)	(203)
Without Advance from Federal Sources	2,769	-
Subtotal Budget Authority	<u>6,782,603</u>	<u>6,577,585</u>
Nonexpenditure Transfers, Net, Anticipated and Actual	(1,834)	(818)
Permanently Not Available	<u>(12,788)</u>	<u>-</u>
<b>Total Budgetary Resources (Note 18)</b>	<b><u>\$ 7,150,426</u></b>	<b><u>\$ 6,955,663</u></b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred		
Direct	\$ 6,725,968	\$ 6,536,140
Reimbursable	44,645	41,617
Total Obligations Incurred (Note 18)	<u>6,770,613</u>	<u>6,577,757</u>
Unobligated Balance - Available		
Apportioned	258,217	300,013
Exempt from Apportionment	56,381	45,030
Total Unobligated Balance - Available	<u>314,598</u>	<u>345,043</u>
Unobligated Balance Not Available	<u>65,215</u>	<u>32,863</u>
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 7,150,426</u></b>	<b><u>\$ 6,955,663</u></b>
<b>Change in Obligated Balance</b>		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations	\$ 1,185,212	\$ 1,352,082
Less: Uncollected Customer Payments from Federal Sources	6,345	8,350
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	<u>1,178,867</u>	<u>1,343,732</u>
Obligations Incurred, Net	6,770,613	6,577,757
Less: Gross Outlays	6,899,342	6,737,782
Less: Recoveries of Prior Year Unpaid Obligations, Actual	4,539	6,845
Change in Uncollected Customer Payments from Federal Sources	(4,537)	2,005
Obligated Balance, Net - End of Period		
Unpaid Obligations	1,051,944	1,185,212
Less: Uncollected Customer Payments from Federal Sources	10,882	6,345
<b>Total Unpaid Obligated Balance, Net - End of Period</b>	<b><u>\$ 1,041,062</u></b>	<b><u>\$ 1,178,867</u></b>
<b>Net Outlays</b>		
Gross Outlays	\$ 6,899,342	\$ 6,737,782
Less: Offsetting Collections	383,911	374,204
Less: Distributed Offsetting Receipts (Note 18)	3,306	12,666
<b>Total Net Outlays (Note 18)</b>	<b><u>\$ 6,512,125</u></b>	<b><u>\$ 6,350,912</u></b>

*U.S. Department of Justice*

The accompanying notes are an integral part of these financial statements.



**Bureau of Prisons**  
**Notes to the Principal Financial Statements**  
**(Dollars in Thousands, Except as Noted)**

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The U.S. Federal Bureau of Prisons (BOP) is a reporting entity under the Department of Justice (DOJ) and encompasses the appropriated activities of the BOP, as well as the activities of the Trust Fund. It does not include the Federal Prison Industries, Inc. (FPI) (also called UNICOR), which is a separate reporting component under the DOJ.

**BOP**

The BOP protects society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, cost-efficient, and appropriately secure, and that provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens.

**Trust Fund**

The Trust Fund was created by two DOJ Orders, No. 2126 on April 1, 1930, and No. 2244 on January 1, 1932. The Trust Fund operates the Commissary to provide inmates with the opportunity to procure merchandise and services not ordinarily provided by the BOP. The Trust Fund is a self-sustaining trust revolving fund account that is funded through the sale of goods and services to inmates.

**B. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the BOP as required by the Government Management Reform Act of 1994, Public Law 103-356, 108, Stat. 3515. These financial statements have been prepared from the books and records of the BOP in accordance with United States generally accepted accounting principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements." These financial statements are different from the financial reports prepared pursuant to OMB directives which are used to monitor and control the use of the BOP budgetary resources. To ensure that the BOP financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet. These include Advances and Prepayments, Accrued Federal Employees' Compensation Act (FECA) Liabilities, Accrued Payroll and Benefits, Accrued Annual and Compensatory Leave Liabilities, Deferred Revenue, Contingent Liabilities and Capital Lease Liabilities.



**1. Summary of Significant Accounting Policies (continued)**

**C. Basis of Consolidation**

The consolidated/combined financial statements include the accounts of the BOP. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for the fiscal years ended September 30, 2011, and 2010 and as such, intra-entity transactions have not been eliminated.

**D. Basis of Accounting**

The financial statements have been prepared and transactions have been recorded on an accrual and budgetary bases of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

These statements were prepared in accordance with GAAP. GAAP for Federal entities are the standards prescribed by the FASAB, which is designated as the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. The Statements of Federal Financial Accounting Standards (SFFAS) that were in effect as of September 30, 2011, were followed in the preparation of these financial statements.

**E. Non-Entity Assets**

A portion of the BOP's Fund Balance with the U.S. Treasury (Treasury) and Accounts Receivable is accounted for as a Non-Entity Asset and disclosed in Note 2. Non-Entity assets are assets held by the BOP but are not available for use by the BOP. The majority of non-entity assets are comprised of prisoner monies held in trust by the Treasury. This amount also includes certain receivables and receipts of cash that are in suspense, clearing, deposit, or general fund accounts. These transactions were processed by commercial banks for deposit to fund accounts maintained at the Treasury.

**F. Fund Balance with U.S. Treasury and Cash**

Funds with the Treasury represent appropriated and trust funds available to pay current liabilities and finance future authorized purchases. Certain receipts are processed by commercial banks for deposit to the BOP appropriation or fund accounts. In addition, the BOP has been granted and maintains imprest funds at many locations that are also included in the BOP's cash balance.



**1. Summary of Significant Accounting Policies (continued)**

**G. Investments**

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the Trust Fund. The cash receipts collected from the public for an earmarked fund are deposited in the Treasury, which uses the cash for general Government purposes. Treasury securities are an asset to the BOP and a liability to the Treasury. Because the BOP and the Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the BOP with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the BOP requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Beginning in fiscal year 1995, the Trust Fund was granted authority (Public Law 103-317, Section 107) to invest funds in excess of operating needs in securities guaranteed by the Treasury. In November 1994, the Trust Fund began participating in the Federal Investment Counseling Program through the Treasury. The Treasury charges no commissions or transaction fees for participating in the program. Investments are made in any Federal Treasury security available to the public. The amount and length of investments are determined after careful review of cash balances available to defray outstanding payables and other liabilities.

Investments in U.S. Government securities are reported at cost net of amortized discounts. Discounts are amortized into interest income over the term of the investment. The Trust Fund's intent is to hold investments to maturity, unless they are needed to sustain the operations of the Trust Fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. The interest received on these securities is captured in the Trust Fund and is used to defray its general operating expenses.



## **1. Summary of Significant Accounting Policies (continued)**

### **H. Accounts Receivable**

Accounts receivable are largely comprised of receivables with the Public. Net accounts receivable includes reimbursement and refund receivables due from Federal agencies and others, less the allowance for uncollectible accounts. The BOP establishes an allowance for uncollectible accounts when it is more likely than not that the accounts receivable will not be collected.

The allowance for uncollectible amounts is estimated by analyzing all individual accounts receivables. Loss estimation is based on the debtor's ability to pay, payment record, willingness to pay, and the probable recovery of amounts from secondary sources.

### **I. Inventory and Related Property**

The Trust Fund Commissary inventories are comprised of merchandise on hand at 95 reporting sites located in the United States and Puerto Rico. Inventories consist of merchandise that is either not normally provided by the BOP or are of a different quality than is regularly issued. Inventory sales are restricted to inmates and consist primarily of foods and beverages, hobby craft items, stamps, clothing, health and hygiene commodities, and other sundry items.

The Trust Fund Commissary inventories are stated at latest acquisition cost, which is adjusted using the Consumer Price Index (CPI) for the year to approximate the value of the inventory under the First-In-First-Out (FIFO) accounting methodology.

### **J. General Property, Plant and Equipment**

The BOP owns the majority of land and buildings in which it operates and capitalizes them on its records. Real property is capitalized based upon the total acquisition cost. Depreciation is applied to program areas based upon the percentage of space occupied. Real property acquisitions equal to or greater than \$100 thousand are capitalized. Real property acquisitions are capitalized and depreciated by the automated SENTRY Real Property Management System (SRPMS).

Personal property acquisitions are capitalized and depreciated by the automated SENTRY Property Management System (SPMS). Physical inventories are conducted annually and adjustments are made as necessary. Any equipment with an acquisition cost of less than \$5 thousand is expensed when purchased. Assets are depreciated using the straight-line method over the estimated useful lives of the assets.



**1. Summary of Significant Accounting Policies (continued)**

**J. General Property, Plant and Equipment (continued)**

The following chart represents the maximum depreciation years for BOP's property:

<b>BOP Depreciation Schedule</b>	
<b>Buildings</b>	<b>30</b>
<b>Equipment</b>	<b>10</b>
<b>Leasehold Improvements</b>	<b>*</b>
<b>Other Structures &amp; Facilities</b>	<b>20</b>
<b>Internal Use Software</b>	<b>7</b>
<b>Vehicles</b>	<b>10</b>
<b>Assets Under Capital Lease</b>	<b>*</b>

\* Depreciation based on the lesser of the lease term or useful life of the asset.

**K. Advances and Prepayments**

Advances and prepayments classified as assets of the BOP on the Balance Sheet represent funds disbursed to individuals and other organizations for which goods or services have not yet been provided.

This amount also includes the current balance of travel advances, issued to Federal employees in advance of official travel. Amounts issued are limited to per diem expenses expected to be incurred by the employees during official travel. For Federal employees who anticipate and plan for travel, advances are permitted up to 80 percent of per diem. Actual reimbursements are made at 100 percent of per diem.

The BOP's amount also includes advances that arise whenever the BOP provides money to state and local governmental agencies to fund correctional study programs. Advances and prepayments involving other Federal agencies are classified as other assets on the balance sheet.

**L. Liabilities**

Liabilities represent the monies or other resources that are likely to be paid by the BOP as the result of a transaction or event that has already occurred. However, no liability can be paid by the BOP absent proper budget authority. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 10.



**1. Summary of Significant Accounting Policies (continued)**

**M. Contingencies and Commitments**

**Contingencies**

The BOP is party to various administrative proceedings, legal actions, and claims related to contract disputes, employee claims under the Fair Labor Standards Act, and inmate claims under the Federal Tort Claim Act and other legal matters. These claims are of a nature considered normal for a government law enforcement agency. In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government" and SFFAS No. 12, "Recognition of Contingent liabilities from Litigation," the BOP has probable and reasonably possible losses arising from litigation. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions "probable" and amounts are reasonably estimable. Legal actions where management and the Chief Counsel consider adverse decisions "probable" or "reasonably possible" and the amounts are reasonably estimable are disclosed in Note 14, Contingencies and Commitments. However, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is "remote."

**N. Annual, Sick, and Other Leave**

Annual and compensatory leave is expensed with an offsetting liability as it is earned and the corresponding liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are expensed as taken.

**O. Interest on Late Payments**

Pursuant to the Prompt Payment Act, 31 U.S.C. 3901-3907, Federal agencies must pay interest on payments for goods or services made to business concerns after the due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services.



**1. Summary of Significant Accounting Policies (continued)**

**P. Retirement Plans**

With few exceptions, employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS) and employees hired after December 31, 1983, are covered by the Federal Employees Retirement System (FERS).

For employees covered by the CSRS, the BOP contributes 7 percent of the employee's gross pay for normal retirement or 7.5 percent for hazardous duty retirement. For employees covered by the FERS, the BOP contributes 11.7 percent of the employee's gross pay for normal retirement or 25.7 percent for hazardous duty retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, a TSP is automatically established, and the BOP is required to contribute an additional 1 percent of gross pay to this plan and match employee contributions up to 4 percent. No matching contributions are made to the TSPs established by the CSRS employees. The BOP does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM).

SFFAS No. 5 requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 17, Imputed Financing from Costs Absorbed by Others.

**Q. Federal Employee Compensation Benefits**

The FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have contracted a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for BOP employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the BOP. The total FECA liability consists of an actuarial and an accrued portion as discussed below.

**Actuarial Liability:** The DOL calculates the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and other approved costs. This method utilizes historical benefit payment patterns related to a specified incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting Federal Government liability was then distributed by the agency. The DOJ portion of this liability includes the estimated future cost of death benefits, workers' compensation, medical, and miscellaneous cost for approved compensation cases for the DOJ employees. The DOJ allocates the liability to the BOP on the basis of actual payments made to the FECA Special Benefits Fund (SBF) for the three prior years as compared to the total DOJ payments made over the same period.



**1. Summary of Significant Accounting Policies (continued)**

**Q. Federal Employee Compensation Benefits (continued)**

The FECA actuarial liability is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the cost is actually billed to the DOJ.

Accrued Liability: The accrued FECA liability is the difference between the FECA benefits paid by the FECA SBF and the agency's actual cash payments to the FECA SBF. For example, the FECA SBF will pay benefits on behalf of an agency through the current year. However, most agencies' actual cash payments during the current year to the FECA SBF will reimburse the FECA SBF for benefits paid through a prior fiscal year. The difference between these two amounts is the accrued FECA liability.

**R. Intragovernmental Activity**

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal Government. Costs and earned revenues with the public represent exchange transactions made between the reporting entity and a non-Federal entity. The classification of revenue or cost as "intragovernmental" or "with the public" is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal Government to prepare consolidated financial statements, not to match public and intragovernmental revenue with the costs incurred to produce public and intragovernmental revenue.

**S. Revenues and Other Financing Sources**

The BOP receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures to support its programs. Appropriations are recognized as budgetary financing sources at the time the related program or administrative expenses are accrued. Additional amounts are obtained through reimbursements for services and donated property.

The BOP receives exchange revenues for daily care, maintenance, and housing of State and Local offenders; for medical services outside of BOP provided to United States Marshals Service prisoners; for meals provided to the BOP staff; for rental of staff housing on institution premises; and for utilities used by the FPI.



**1. Summary of Significant Accounting Policies (continued)**

**S. Revenues and Other Financing Sources (continued)**

The amount billed to house state prisoners is based on the average inmate per capita rate for the security level of the institution where the prisoner is housed. The price of meal tickets for institution employees is calculated using the annual per capita cost for providing meals to inmates. Rental rates for employee housing on institution premises are calculated using the Regional Survey Method: base rental rates are established by means of a series of economic models that utilize typical rates for comparable private rental housing in the established communities nearest to the sites in which the quarters are located. The amount charged for steam purchased by the FPI is the actual cost incurred by the BOP during the production of the utility provided.

Trust Fund profits are utilized for continued operations and programs that benefit the inmate population. The Trust Fund receives no appropriated funds. The Trust Fund receives the majority of its funding through revenues generated by the sale of merchandise, telephone services, and electronic messaging through the Trust Fund Limited Inmate Computer System (TRULINCS). TRULINCS was fully implemented as of February 2011, and provides inmates with some limited computer access. TRULINCS is funded completely by the Trust Fund Appropriation. Regular items sold through the institution commissaries are marked-up 30 percent from their per unit cost. They are then rounded to the nearest nickel to determine selling price. In rare instances when taxes (whether State, Local, or Federal) are included, the per unit tax amount is added to the marked-up price before rounding. Should the selling price ever exceed the manufacturer's printed price, the printed price shall be set even if it is on odd cents.

The Trust Fund also earned other revenue from medical co-payments, vendor commissions, and recycling income. As of March 2004, friends and family members are able to send money to inmates electronically. Funds are deposited directly to an inmate's account within a few hours. A commission based on transaction volume is received from the vendor. As of October 2005, inmates pay a \$2 per visit co-pay for in-house medical appointments. Twenty-five percent of the co-pay is retained by the Trust Fund and the other percent is paid to the Office of Justice Programs Crime Victims Fund. Trust Fund Debit Card Vending has been limited to the sale of credits through the commissary for services such as copies and the use of washer and dryers. Trust Fund revenue also includes investment income.

The Trust Fund has deferred revenue for the inmate Telephone System and the TRULINCS, which include the amount of phone credits and TRU-units purchased by inmates that have not been used as of September 30, 2011.



## **1. Summary of Significant Accounting Policies (continued)**

### **T. Earmarked Funds**

SFFAS No. 27, "Identifying and Reporting Earmarked Funds," defines 'earmarked funds' as being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. The three required criteria for an earmarked fund are:

1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes;
2. Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

The following fund meets the definition of an Earmarked Fund: Trust Fund – 15X8408.

### **U. Allocation Transfer of Appropriations**

The BOP is a party to allocation transfers with another Federal agency as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived.

The BOP allocates funds to the Public Health Service (PHS). The PHS provides a portion of the medical treatment for Federal inmates. Money is transferred from the BOP to PHS, and is designated and expended for current year obligations of PHS staff salaries, benefits, and applicable relocation expenses. The amounts transferred to PHS from the BOP totaled \$95 million and \$90 million for the fiscal years ended September 30, 2011 and 2010, respectively, and are not material to PHS, therefore they are included as part of these financial statements.

### **V. Tax Exempt Status**

As an agency of the Federal Government, the BOP is exempt from all income taxes imposed by any governing body whether it is a Federal, state, commonwealth, local, or foreign government.



## Notes to the Principal Financial Statements

---

### 1. Summary of Significant Accounting Policies (continued)

#### W. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### X. Reclassifications

The FY 2010 financial statements were reclassified to conform to the FY 2011 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

#### Y. Subsequent Events

Subsequent events and transactions occurring after September 30, 2011 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

### 2. Non-Entity Assets

Non-entity assets are assets that are held by an entity but are not available for use by the entity. Non-entity assets as of September 30, 2011 and 2010 are presented in the following table.

As of September 30, 2011 and 2010	2011	2010
Intragovernmental		
Fund Balance With U.S. Treasury	\$ 48,575	\$ 44,854
With the Public		
Accounts Receivable, Net	2,152	13,729
Total With the Public	2,152	13,729
Total Non-Entity Assets	50,727	58,583
Total Entity Assets	7,845,883	7,929,410
Total Assets	<u>\$ 7,896,610</u>	<u>\$ 7,987,993</u>



*Notes to the Principal Financial Statements*

---

**3. Fund Balance with U.S. Treasury**

The Fund Balance with the Treasury as reported in the financial statements represents the unexpended cash balances in the BOP's accounting records for all the BOP Treasury Symbols at September 30, 2011 and 2010. The fund balances with the Treasury are presented in the following table.

As of September 30, 2011 and 2010	2011	2010
<b>Fund Balances</b>		
Trust Fund	\$ 80,240	\$ 67,328
General Funds	1,339,854	1,488,676
Other Fund Types	48,575	44,854
Total Fund Balances with U.S. Treasury	<u>\$ 1,468,669</u>	<u>\$ 1,600,858</u>
<b>Status of Fund Balances</b>		
Unobligated Balance - Available	\$ 314,598	\$ 345,043
Unobligated Balance - Unavailable	65,215	32,863
Obligated Balance not yet Disbursed	1,041,062	1,178,867
Other Funds (With)/Without Budgetary Resources	47,794	44,085
Total Status of Fund Balances	<u>\$ 1,468,669</u>	<u>\$ 1,600,858</u>

The fund balance with the Treasury as reported in these financial statements and notes have been adjusted to account for the difference from that reported by the Treasury. The reported balance in the BOP's general ledger account, Fund Balance with the Treasury, before any adjustments, was \$2,460 and \$821 thousand greater than the actual fund balance reported by the Treasury as of September 30, 2011 and 2010, respectively. Routinely, two types of differences arise. First, differences are created between the accounting records of the BOP and the Treasury because of the timing of transaction inputs corresponding with cash receipts and disbursements. Second, differences are created by data input errors and remain until the necessary correcting entries are processed by the BOP's or the Treasury's accounting systems. The BOP operates a decentralized accounting system with 110 agency location codes. Any cause for reconciliation must be done individually by location.

For the Trust Fund, this amount represents the aggregate balance of the Trust Fund's cash accounts with the Treasury under the account symbol 15X8408. This item also represents the total amount of all obligated and unobligated undisbursed account balances with the Treasury as reflected in the Trust Fund's records. The Trust Fund's general ledger balance for Fund Balance with the Treasury, before any adjustments, was \$459 and \$253 thousand greater than the actual amount reported by each of the BOP's accounting stations to the Treasury as of September 30, 2011 and 2010, respectively.



**3. Fund Balance with U.S. Treasury (continued)**

The unobligated balance for annual and multi-year budget authority may be used to incur new obligations for the purpose specified by the appropriation act. Annual and multi-year budget authority expires at the end of its period of availability. During the first through the fifth expired years, the unobligated balance becomes unavailable and may be used to adjust obligations and disbursements that were recorded before the budgetary authority expired or to meet a legitimate or bona fide need arising in the fiscal year for which the appropriation was made. The unobligated balance for no-year budget authority may be used to incur obligations indefinitely for the purpose specified by the appropriation act. No-year budget authority unobligated balances are still subject to the annual apportionment and allotment process.

The total status of fund balances includes funds without budgetary resources. Other funds without budgetary resources are composed of prisoner monies held in trust by the Treasury and certain receivables and receipts of cash that are in suspense, clearing, deposit, or general fund accounts.

**4. Cash and Monetary Assets**

Cash and Monetary Assets, as reported in the financial statements, represent the total cash and cash equivalents under the control of the BOP as of September 30, 2011 and 2010, respectively.

As of September 30, 2011 and 2010		
	2011	2010
Cash	_____	_____
Imprest Funds	\$ 783	\$ 774

The BOP's cash account is minimal given that the BOP does not, for the most part, maintain cash in commercial bank accounts. The BOP's cash account consists of imprest funds totaling \$783 and \$774 thousand as of September 30, 2011 and 2010, respectively. All of the listed amounts are available to pay current liabilities and finance future authorized purchases.



*Notes to the Principal Financial Statements*

---

**5. Investments, Net**

The Trust Fund invests in non-marketable market-based Treasury securities issued by the Bureau of the Public Debt. These securities are available to the public but cannot be resold. These securities are purchased and redeemed at par value (the value at maturity) exclusively through the Treasury's Finance and Funding Branch, see Note 1.G. When securities are purchased, the investment is recorded at par value. Premiums and/or discounts are amortized through the end of the reporting period. As of September 30, 2011 and 2010, all Trust Fund security investments have matured. Therefore, the respective investment balances are zero.

**6. Accounts Receivable, Net**

Accounts Receivable represents the net amounts due to BOP as of September 30, 2011 and 2010, respectively, as shown in the following table. The FY 2010 Intragovernmental Allowance for Uncollectible Accounts represents accounts receivables from the Department of Homeland Security that are deemed uncollectible.

As of September 30, 2011 and 2010		
	<u>2011</u>	<u>2010</u>
Intragovernmental		
Accounts Receivable	\$ 3,347	\$ 7,701
Allowance for Uncollectible Accounts	-	(1,466)
Total Intragovernmental	<u>3,347</u>	<u>6,235</u>
With the Public		
Accounts Receivable	10,498	20,732
Allowance for Uncollectible Accounts	(720)	(720)
Total With the Public	<u>9,778</u>	<u>20,012</u>
Total Accounts Receivable, Net	<u>\$ 13,125</u>	<u>\$ 26,247</u>



*Notes to the Principal Financial Statements*

**7. Inventory and Related Property, Net**

The Trust Fund Commissary inventory purchased for resale as of September 30, 2011 and 2010 is presented in the following table.

As of September 30, 2011 and 2010		
	<u>2011</u>	<u>2010</u>
Inventory		
Inventory Purchased for Resale	\$ 18,180	\$ 16,474

**8. General Property, Plant and Equipment, Net**

Property, Plant and Equipment (PP&E), as reported in the financial statements, are recorded at the acquisition cost net of accumulated depreciation at September 30, 2011 and 2010, respectively. See Note 1.J for method of depreciation, capitalization thresholds, and useful lives.

As of September 30, 2011	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
Land and Land Rights	\$ 174,827	\$ -	\$ 174,827	N/A
Construction in Progress	532,453	-	532,453	N/A
Buildings, Improvements, and Renovations	8,603,404	(3,582,926)	5,020,478	2-30 yrs
Other Structures & Facilities	814,436	(423,893)	390,543	20 yrs
Vehicles	167,175	(108,635)	58,540	6-10 yrs
Equipment	268,452	(159,355)	109,097	10 yrs
Assets Under Capital Lease	89,625	(47,800)	41,825	5-30 yrs
Leasehold Improvements	71,395	(36,325)	35,070	2-20 yrs
Internal Use Software	28,021	(20,835)	7,186	5-7 yrs
Internal Use Software in Development	17,462	-	17,462	N/A
Total	<u>\$ 10,767,250</u>	<u>\$ (4,379,769)</u>	<u>\$ 6,387,481</u>	



*Notes to the Principal Financial Statements*

**8. General Property, Plant and Equipment, Net (continued)**

As of September 30, 2010	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	\$ 174,606	\$ -	\$ 174,606	N/A
Construction in Progress	373,126	-	373,126	N/A
Buildings, Improvements, and Renovations	8,433,772	(3,296,240)	5,137,532	2-30 yrs
Other Structures & Facilities	773,876	(387,538)	386,338	20 yrs
Vehicles	138,637	(94,752)	43,885	6-10 yrs
Equipment	269,725	(154,802)	114,923	10 yrs
Assets Under Capital Lease	89,625	(44,813)	44,812	5-30 yrs
Leasehold Improvements	60,261	(29,131)	31,130	2-20 yrs
Internal Use Software	26,582	(16,221)	10,361	5-7 yrs
Internal Use Software in Development	18,013	-	18,013	N/A
Total	<u>\$ 10,358,223</u>	<u>\$ (4,023,497)</u>	<u>\$ 6,334,726</u>	

Leasehold improvements reflect capital improvements made to facilities occupied but not owned by the BOP. Capital improvements made to buildings and other structures owned by the BOP are reflected as buildings and other structures and facilities. The BOP had capitalized property purchases from Federal Sources and from the Public. These purchases totaled \$29,768 and \$9,674 thousand from Federal Sources, and \$398,801 and \$443,927 thousand from the Public, for the fiscal years ended September 30, 2011 and 2010, respectively.

**9. Other Assets**

Other assets include advances to others and farm livestock. The amounts as of September 30, 2011 and 2010 are presented in the following table.

As of September 30, 2011 and 2010	2011	2010
Intragovernmental		
Advances and Prepayments	\$ -	\$ 407
Other Assets With the Public		
Farm Livestock	\$ 4,473	\$ 4,662



## Notes to the Principal Financial Statements

### 10. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. These liabilities as of September 30, 2011 and 2010, respectively, are presented in the following table.

As of September 30, 2011 and 2010		
	2011	2010
<b>Intragovernmental</b>		
Accrued FECA Liabilities	\$ 143,910	\$ 138,556
Other Unfunded Employment Related Liabilities	1,157	923
Other	3,690	-
Total Intragovernmental	<u>148,757</u>	<u>139,479</u>
<b>With the Public</b>		
Actuarial FECA Liabilities	761,197	735,856
Accrued Annual and Compensatory Leave Liabilities	170,187	168,853
Environmental and Disposal Liabilities (Note 11)	62,722	61,902
Contingent Liabilities (Note 14)	8,563	4,827
Capital Lease Liabilities (Note 12)	23,941	30,703
Other	122,152	47,300
Total With the Public	<u>1,148,762</u>	<u>1,049,441</u>
Total Liabilities not Covered by Budgetary Resources	1,297,519	1,188,920
Total Liabilities Covered by Budgetary Resources	<u>678,172</u>	<u>687,548</u>
Total Liabilities	<u>\$ 1,975,691</u>	<u>\$ 1,876,468</u>

### 11. Environmental and Disposal Liabilities

The BOP operates 117 facilities in over 30 States and Territories and is subject to rigorous Federal, State, and Local environmental regulations applicable to the facility locations. Per SFFAS No. 5, SFFAS No. 6, "Accounting for Property, Plant, and Equipment", and Technical Release No. 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government", Federal agencies are required to recognize liabilities for environmental clean-up costs when the future outflow or sacrifice of resources is probable and reasonably estimable. The BOP exercises due care in determining the presence of contamination through regularly scheduled testing required by Facilities Management Policy. If, as a result of the testing, environmental contamination is detected on BOP owned property or on non-BOP property but BOP is determined to be the agent of the contamination, the BOP will clean up the contamination as soon as possible. The liability is recognized immediately.



## **11. Environmental and Disposal Liabilities (continued)**

As environmental-related clean-up costs are accomplished, the prior established liability will be reduced. Additionally, estimates will be revised periodically to account for material changes due to inflation, deflation, technology, or applicable laws and regulations. Any material changes in the estimated total clean-up costs will be expensed when re-estimates occur and the liability balance adjusted.

### **Firing Ranges**

The BOP operates firing ranges on 65 of the sites where its institutions are located. Use of these firing ranges generates waste consisting primarily of lead shot and spent rounds from rifles, shotguns, pistols, and automatic weapons. At operational firing ranges, lead-containing bullets are fired and eventually fall to the ground at or near the range. As of September 30, 2010, BOP management determined their estimated clean-up liability to be \$25,069 thousand. In FY 2011, BOP management adjusted the estimated clean-up liability by the current U.S. inflation rate as determined by the U.S. Treasury and as such determined that an estimated firing range clean-up liability of \$26,045 thousand, based on an inflation rate of 3.9 percent, should be recorded. In FY 2011, the liability cost for firing ranges increased \$976 thousand.

### **Asbestos**

Section 112 of the Clean Air Act requires the U.S. Environmental Protection Agency (EPA) to develop and enforce regulations to protect the general public from exposure to airborne contaminants that are known to be hazardous to human health. On March 31, 1971, the EPA identified asbestos as a hazardous pollutant, and on April 6, 1973, EPA first promulgated the Asbestos National Emissions Standards for Hazardous Air Pollutants (NESHAP).

The BOP conducted a review of 46 institutions that were built prior to 1980; the review provided an estimate of the extent of friable and non-friable Asbestos Containing Materials (ACM) remaining in each of the institutions as of October 30, 2009. As of September 30, 2010, BOP management determined their estimated clean-up liability to be \$36,833 thousand. In FY 2011, BOP Management reduced the clean-up liability in the amount of \$1,531 thousand for the abatement of asbestos at five locations. In addition, BOP Management increased the clean-up liability in the amount of \$1,375 thousand by the current US inflation rate of 3.9% as determined by the US Treasury. In FY 2011, BOP management recorded a clean-up liability in the amount of \$36,677 thousand, a \$156 thousand decrease in liability cost for asbestos from the previous year.



*Notes to the Principal Financial Statements*

---

**12. Leases**

**Capital Leases**

The tables that follow represent a 25-year capital lease for a Federal Transfer Center in Oklahoma City. The lease agreement, which will expire in fiscal year 2019, calls for semi-annual payments of \$4.5 million for 20 years; the remaining five years (lease years 21 through 25) will be land rental payments only. The BOP paid a total of \$9.1 million in payments during the fiscal year ended September 30, 2011.

As of September 30, 2011 and 2010		
Capital Leases	2011	2010
Summary of Assets Under Capital Lease		
Land and Buildings	\$ 89,625	\$ 89,625
Accumulated Amortization	(47,800)	(44,813)
Total Assets Under Capital Lease (Note 8)	<u>\$ 41,825</u>	<u>\$ 44,812</u>

**Future Capital Lease Payments**

Future Capital Lease Payments Due		Land and Buildings
<u>Fiscal Year</u>		
2012		\$ 9,073
2013		9,073
2014		9,073
2015		32
2016		32
After 2016		96
Total Future Capital Lease Payments		<u>\$ 27,379</u>
Less: Imputed Interest		(3,438)
FY 2011 Net Capital Lease Liabilities		<u>\$ 23,941</u>
FY 2010 Net Capital Lease Liabilities		<u>\$ 30,703</u>
	2011	2010
Net Capital Lease Liabilities Not Covered by Budgetary Resources	\$ 23,941	\$ 30,703



*Notes to the Principal Financial Statements*

---

**13. Other Liabilities**

Other liabilities as of September 30, 2011 and 2010, totaled \$246 million and \$170 million, respectively. The majority of Intragovernmental Other Liabilities are composed of tenant allowances for operating leases, monies received from prisoner funds, and certain receipts of cash that are in suspense, clearing, deposit, or general fund accounts that are owed to the Treasury. Other Accrued Liabilities With the Public are composed of future funded energy savings performance contracts and utilities. All other liabilities are current and are presented in the following table.

As of September 30, 2011 and 2010	2011	2010
<b>Intragovernmental</b>		
Employer Contributions and Payroll Taxes Payable	\$ 59,333	\$ 52,792
Other Post-Employment Benefits Due and Payable	2,408	1,599
Other Unfunded Employment Related Liabilities	1,157	923
Advances from Others	667	868
Other Liabilities	5,799	17,744
Total Intragovernmental	<u>69,364</u>	<u>73,926</u>
<b>With the Public</b>		
Other Accrued Liabilities	122,152	47,300
Advances from Others	5,837	3,949
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	48,617	44,889
Total With the Public	<u>176,606</u>	<u>96,138</u>
Total Other Liabilities	<u>\$ 245,970</u>	<u>\$ 170,064</u>



#### **14. Contingencies and Commitments**

Contingencies include various administrative proceedings, legal actions, and claims related to contract disputes and employee and inmate claims; see Note 1.M for more details. For legal actions where management and the Chief Counsel consider adverse decisions “probable” or “reasonably possible” and the amounts are reasonably estimable, information is disclosed below. The amounts as of September 30, 2011 and 2010 are presented in the following table.

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2011			
Probable	\$ 8,563	\$ 8,563	\$ 15,490
Reasonably Possible		16,378	38,141
As of September 30, 2010			
Probable	\$ 4,827	\$ 4,827	\$ 10,620
Reasonably Possible		4,643	9,599

#### **15. Earmarked Funds**

The Trust Fund is a self-sustaining trust revolving fund account that is funded through the sale of goods and services to inmates. The Trust Fund receives no appropriated funds, and the majority of its funding is through revenues generated by the sale of merchandise, telephone services, and electronic messaging to inmates. Regular items sold through institution commissaries are marked-up 30 percent from their per unit cost. The Trust Fund Commissary inventories are comprised of merchandise on-hand at reporting sites located in the United States and Puerto Rico. Inventory sales are restricted to inmates and consist primarily of foods and beverages, hobby craft items, stamps, clothing, health and hygiene commodities, and other sundry items. Commissary items are stated at latest acquisition cost, which is adjusted using the CPI for the year to approximate the value of the inventory under the FIFO accounting methodology.

Cash receipts collected from the public for an earmarked fund are deposited in the Treasury, which uses the cash for general Government purposes. The Trust Fund invests in non-marketable market-based Treasury securities issued by the Bureau of Public Debt. These securities are available to the public but cannot be resold. These securities are purchased and redeemed at par value (the value at maturity) exclusively through the Treasury’s Finance and Funding Branch. When securities are purchased, the investment is recorded at par value.



*Notes to the Principal Financial Statements*

**15. Earmarked Funds (continued)**

Beginning in 1995, the Trust Fund was granted authority to invest funds in excess of operating needs in securities guaranteed by the Treasury. Investments in U.S. Government securities are reported at cost net of amortized discounts. Discounts are amortized into interest income over the term of the investment. The Trust Fund's intent is to hold investments to maturity, unless they are needed to sustain the operations of the Trust Fund. Interest received on securities is captured in the Trust Fund and is used to defray its general operating expenses. The following table shows earmarked funds as of September 30, 2011 and 2010.

As of September 30, 2011 and 2010	<u>2011</u>	<u>2010</u>
	<u>Trust Fund</u>	<u>Trust Fund</u>
<b>Balance Sheet</b>		
<b>Assets</b>		
Fund Balance with U.S. Treasury	\$ 80,240	\$ 67,328
Other Assets	27,572	27,560
Total Assets	<u>\$ 107,812</u>	<u>\$ 94,888</u>
<b>Liabilities</b>		
Accounts Payable	\$ 11,131	\$ 12,696
Other Liabilities	13,124	12,339
Total Liabilities	<u>\$ 24,255</u>	<u>\$ 25,035</u>
<b>Net Position</b>		
Cumulative Results of Operations	\$ 83,557	\$ 69,853
Total Net Position	<u>\$ 83,557</u>	<u>\$ 69,853</u>
Total Liabilities and Net Position	<u>\$ 107,812</u>	<u>\$ 94,888</u>
<b>Statements of Net Cost</b>		
Gross Cost of Operations	\$ 332,106	\$ 338,286
Less: Exchange Revenues	341,176	331,199
Net Cost of Operations	<u>\$ (9,070)</u>	<u>\$ 7,087</u>
<b>Statement of Changes in Net Position</b>		
Net Position Beginning of Period	\$ 69,853	\$ 73,049
Other Financing Sources	4,634	3,891
Total Financing Sources	4,634	3,891
Net Cost of Operations	9,070	(7,087)
Net Change	<u>13,704</u>	<u>(3,196)</u>
Net Position at End of Period	<u>\$ 83,557</u>	<u>\$ 69,853</u>



*Notes to the Principal Financial Statements*

**16. Net Cost of Operations by Suborganization**

The following tables show the net cost of operations for each of the BOP's goals by suborganization for the fiscal years ended September 30, 2011 and 2010.

For the Fiscal Year Ended September 30, 2011			
	Suborganizations		Consolidated
	Trust Fund	BOP	
<b>Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People</b>			
Gross Cost	\$ -	\$ 6,613	\$ 6,613
Less: Earned Revenue	-	-	-
Net Cost of Operations	-	6,613	6,613
<b>Goal 3: Ensure the Fair and Efficient Administration of Justice</b>			
Gross Cost	332,106	6,881,259	7,213,365
Less: Earned Revenue	341,176	44,500	385,676
Net Cost of Operations	(9,070)	6,836,759	6,827,689
Net Cost of Operations	\$ (9,070)	\$ 6,843,372	\$ 6,834,302

For the Fiscal Year Ended September 30, 2010			
	Suborganizations		Consolidated
	Trust Fund	BOP	
<b>Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People</b>			
Gross Cost	\$ -	\$ 6,860	\$ 6,860
Less: Earned Revenue	-	-	-
Net Cost of Operations	-	6,860	6,860
<b>Goal 3: Ensure the Fair and Efficient Administration of Justice</b>			
Gross Cost	338,286	6,683,473	7,021,759
Less: Earned Revenue	331,199	41,000	372,199
Net Cost of Operations	7,087	6,642,473	6,649,560
Net Cost of Operations	\$ 7,087	\$ 6,649,333	\$ 6,656,420



## **17. Imputed Financing from Costs Absorbed by Others**

**Imputed Inter-Departmental Financing Sources** are the unreimbursed (i.e. non-reimbursed and under-reimbursed) portion of the full costs of goods and services received by the BOP from a providing entity that is not part of the DOJ. In accordance with SFFAS No. 30, "Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts", the material Imputed Inter-Departmental financing sources recognized by the BOP are the cost of benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees' Group Life Insurance Program (FEGLI), the Federal Pension plans that are paid by other Federal entities, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the BOP. The Treasury Judgment Fund was established by the Congress and funded at 31 U.S.C. 1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of Federal Financial Accounting Standards Interpretation No. 2, "Accounting for Treasury Judgment Fund Transactions," requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and the amount can be estimated and will be paid by the Treasury Judgment Fund.

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. For employees covered by CSRS, the cost factors are 30.1 percent of basic pay for regular, 51.1 percent law enforcement officers, 23.5 percent regular offset, and 45.6 percent law enforcement officers offset. For employees covered by FERS, the cost factors are 13.8 percent of basic pay for regular and 29.8 percent for law enforcement officers.

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, the cost of other retirement benefits, which include health and life insurance that are paid by other Federal entities, must also be disclosed.



**17. Imputed Financing from Costs Absorbed by Others (continued)**

**Imputed Intra-Departmental Financing Sources** as defined in SFFAS No. 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government,” and FASAB Interpretation No. 6, “Accounting for Imputed Intra-Departmental Costs: An Interpretation of SFFAS No. 4,” are the unreimbursed portion of the full costs of goods and services received by the BOP from a providing entity that is part of the DOJ. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Costs are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity’s output. The BOP management had adopted FASAB Interpretation No. 6 during FY 2005 and reviews Imputed Intra-Departmental Financing Sources quarterly to determine materiality. As of September 30, 2011 these costs are deemed immaterial and are not reported.

For the Fiscal Years Ended September 30, 2011 and 2010		
	2011	2010
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	\$ 5,367	\$ 5,215
Health Insurance	183,388	173,302
Life Insurance	460	449
Pension	73,309	37,739
Total Imputed Inter-Departmental	<u>\$ 262,524</u>	<u>\$ 216,705</u>
Total Imputed Financing	<u>\$ 262,524</u>	<u>\$ 216,705</u>

**18. Information Related to the Statement of Budgetary Resources**

**Apportionment Categories of Obligations Incurred:**

The apportionment categories are determined in accordance with the guidance provided in Part 4 “Instructions on Budget Execution” of OMB Circular A-11, “Preparation, Submission and Execution of the Budget”. Category A represents resources apportioned for calendar quarters.



**18. Information Related to the Statement of Budgetary Resources (continued)**

	<u>Direct Obligations</u>	<u>Reimbursable Obligations</u>	<u>Total Obligations Incurred</u>
For the Fiscal Year Ended September 30, 2011 Obligations Apportioned Under Category A	\$ 6,725,968	\$ 44,645	\$ 6,770,613
For the Fiscal Year Ended September 30, 2010 Obligations Apportioned Under Category A	\$ 6,536,140	\$ 41,617	\$ 6,577,757

**Status of Undelivered Orders:**

Undelivered Orders (UDO) represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

As of September 30, 2011 and 2010		
	<u>2011</u>	<u>2010</u>
UDO Obligations Unpaid	\$ 432,938	\$ 566,953
UDO Obligations Prepaid/Advanced	(733)	872
Total UDO	<u>\$ 432,205</u>	<u>\$ 567,825</u>

**Permanent Indefinite Appropriations:**

A permanent indefinite appropriation is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount.

Congress established the Trust Fund in 1932 to allow inmates a means to purchase additional products and services above the necessities provided by appropriated Federal funds. The Trust Fund is a self-sustaining trust revolving fund account that is funded through sales of goods and services, rather than annual or no-year appropriations.



**18. Information Related to the Statement of Budgetary Resources (continued)**

**Legal Arrangements Affecting Use of Unobligated Balances:**

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation based on annual legislative requirements and other enabling authorities, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, and no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. Amounts in expired fund symbols are not available for new obligations, but may be used to adjust previously established obligations.

**Statement of Budgetary Resources vs. the Budget of the United States Government:**

The reconciliation between the Statement of Budgetary Resources and the Budget of the United States Government for fiscal year 2010 is shown in the following table. The reconciliation as of September 30, 2011 is not presented, because the submission of the Budget of the United States Government (Budget) for FY 2013, which presents the execution of the FY 2011 Budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2012.

<b>For the Fiscal Year Ended September 30, 2010</b>				
(Dollars in millions)				
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
<b>Statement of Budgetary Resources (SBR)</b>	\$ 6,956	\$ 6,578	\$ 13	\$ 6,351
<b>Funds not Reported in the Budget</b>				
Expired Funds	(60)	(27)	-	-
Reconciling Item 153220(ZX)	-	-	(12)	12
<b>Other (Rounding)</b>	(1)	(1)	(1)	1
<b>Budget of the United States Government</b>	<u>\$ 6,895</u>	<u>\$ 6,550</u>	<u>\$ -</u>	<u>\$ 6,364</u>



## Notes to the Principal Financial Statements

### 19. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 6,770,613	\$ 6,577,757
Less: Spending Authority from Offsetting Collections and Recoveries	<u>392,987</u>	<u>379,044</u>
Obligations Net of Offsetting Collections and Recoveries	6,377,626	6,198,713
Less: Offsetting Receipts	<u>3,306</u>	<u>12,666</u>
Net Obligations	6,374,320	6,186,047
<b>Other Resources</b>		
Donations and Forfeitures of Property	226	340
Transfers-In/Out Without Reimbursement	1,413	5,394
Imputed Financing from Costs Absorbed by Others (Note 17)	<u>262,524</u>	<u>216,705</u>
Net Other Resources Used to Finance Activities	<u>264,163</u>	<u>222,439</u>
<b>Total Resources Used to Finance Activities</b>	<b><u>6,638,483</u></b>	<b><u>6,408,486</u></b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	138,188	221,619
Resources That Fund Expenses Recognized in Prior Periods (Note 20)	(6,762)	(6,410)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	3,306	12,666
Resources That Finance the Acquisition of Assets	<u>(430,370)</u>	<u>(454,738)</u>
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	<u>-</u>	<u>(36,833)</u>
<b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>	<b><u>(295,638)</u></b>	<b><u>(263,696)</u></b>
<b>Total Resources Used to Finance Net Cost of Operations</b>	<b>\$ 6,342,845</b>	<b>\$ 6,144,790</b>
<b>Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period</b>		
Components That Will Require or Generate Resources in Future Periods (Note 20)	\$ 115,361	\$ 153,285
Depreciation and Amortization	373,138	356,000
Revaluation of Assets or Liabilities	<u>2,958</u>	<u>2,345</u>
<b>Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period</b>	<b><u>491,457</u></b>	<b><u>511,630</u></b>
<b>Net Cost of Operations</b>	<b><u>\$ 6,834,302</u></b>	<b><u>\$ 6,656,420</u></b>



*Notes to the Principal Financial Statements*

**20. Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components of Net Cost of Operations Requiring or Generating Resources in Future Periods**

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$1,298 million and \$1,189 million on September 30, 2011 and 2010 respectively, are discussed in Note 10, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are presented in the following table.

The BOP has authority to record budgetary resources for receivables due from the Public, which mainly consists of state prisoner billings, before the funds are actually collected. For this reason, the change in Exchange Revenue receivables from the Public is not presented in the following table.

For the Fiscal Years Ended September 30, 2011 and 2010		
	2011	2010
<b>Resources that Fund Expenses Recognized in Prior Periods</b>		
Other		
Decrease in Contingent Liabilities	\$ -	\$ (103)
Decrease in Unfunded Capital Lease Liabilities	(6,762)	(6,253)
Decrease in Other Unfunded Employment Related Liabilities	-	(54)
Total Other	<u>(6,762)</u>	<u>(6,410)</u>
Total Resources that Fund Expenses Recognized in Prior Periods	<u>\$ (6,762)</u>	<u>\$ (6,410)</u>
<b>Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods</b>		
Increase in Accrued Annual and Compensatory Leave Liabilities	\$ 1,334	\$ 6,797
Increase in Environmental and Disposal Liabilities	820	39,790
Other		
Increase in Actuarial FECA Liabilities	25,341	66,836
Increase in Accrued FECA Liabilities	5,354	6,844
Increase in Contingent Liabilities	3,736	-
Increase in Other Unfunded Employment Related Liabilities	234	-
Increase in Other Liabilities	<u>78,542</u>	<u>33,018</u>
Total Other	<u>113,207</u>	<u>106,698</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>\$ 115,361</u>	<u>\$ 153,285</u>

This page intentionally left blank.

# U.S. DEPARTMENT OF JUSTICE

## BUREAU OF PRISONS

REQUIRED SUPPLEMENTARY  
INFORMATION  
(UNAUDITED)



This page intentionally left blank.

**U.S. Department of Justice  
Bureau of Prisons  
Required Supplementary Information  
Consolidated Deferred Maintenance  
For the Fiscal Year Ended September 30, 2011**

---



The BOP's deferred maintenance is immaterial. The BOP maintains maintenance schedules to monitor the condition of its PP&E. Due to health and safety concerns for staff and inmates, the BOP does not defer necessary maintenance.

U.S. Department of Justice  
Bureau of Prisons  
Required Supplementary Information  
Combining Statement of Budgetary Resources  
Broken Down by Major Budget Account  
For the Fiscal Year Ended September 30, 2011



Dollars in Thousands	2011			
	S&E	B&F	TF	Total
<b>Budgetary Resources</b>				
Unobligated Balance, Brought Forward, October 1	\$ 109,103	\$ 223,773	\$ 45,030	\$ 377,906
Recoveries of Prior Year Unpaid Obligations	4,539	-	-	4,539
Budget Authority				
Appropriations Received	6,295,000	99,155	-	6,394,155
Spending Authority from Offsetting Collections				
Earned				
Collected	42,816	-	341,296	384,112
Change in Receivables from Federal Sources	1,888	-	(120)	1,768
Change in Unfilled Customer Orders				
Advance Received	(201)	-	-	(201)
Without Advance from Federal Sources	2,769	-	-	2,769
Subtotal Budget Authority	<u>6,342,272</u>	<u>99,155</u>	<u>341,176</u>	<u>6,782,603</u>
Nonexpenditure Transfers, Net, Anticipated and Actual	(1,834)	-	-	(1,834)
Permanently Not Available	<u>(12,590)</u>	<u>(198)</u>	<u>-</u>	<u>(12,788)</u>
<b>Total Budgetary Resources (Note 18)</b>	<b><u>\$ 6,441,490</u></b>	<b><u>\$ 322,730</u></b>	<b><u>\$ 386,206</u></b>	<b><u>\$ 7,150,426</u></b>
<b>Status of Budgetary Resources</b>				
Obligations Incurred				
Direct	\$ 6,270,860	\$ 125,283	\$ 329,825	\$ 6,725,968
Reimbursable	44,645	-	-	44,645
Total Obligations Incurred (Note 18)	<u>6,315,505</u>	<u>125,283</u>	<u>329,825</u>	<u>6,770,613</u>
Unobligated Balance - Available				
Apportioned	60,770	197,447	-	258,217
Exempt from Apportionment	-	-	56,381	56,381
Total Unobligated Balance - Available	<u>60,770</u>	<u>197,447</u>	<u>56,381</u>	<u>314,598</u>
Unobligated Balance Not Available	<u>65,215</u>	<u>-</u>	<u>-</u>	<u>65,215</u>
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 6,441,490</u></b>	<b><u>\$ 322,730</u></b>	<b><u>\$ 386,206</u></b>	<b><u>\$ 7,150,426</u></b>
<b>Change in Obligated Balance</b>				
Obligated Balance, Net - Brought Forward, October 1				
Unpaid Obligations	\$ 703,133	\$ 458,635	\$ 23,444	\$ 1,185,212
Less: Uncollected Customer Payments from Federal Sources	5,197	-	1,148	6,345
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	<u>697,936</u>	<u>458,635</u>	<u>22,296</u>	<u>1,178,867</u>
Obligations Incurred, Net	6,315,505	125,283	329,825	6,770,613
Less: Gross Outlays	6,209,024	361,936	328,382	6,899,342
Less: Recoveries of Prior Year Unpaid Obligations, Actual	4,539	-	-	4,539
Change in Uncollected Customer Payments from Federal Sources	(4,657)	-	120	(4,537)
Obligated Balance, Net - End of Period				
Unpaid Obligations	805,075	221,982	24,887	1,051,944
Less: Uncollected Customer Payments from Federal Sources	9,854	-	1,028	10,882
<b>Total Unpaid Obligated Balance, Net - End of Period</b>	<b><u>\$ 795,221</u></b>	<b><u>\$ 221,982</u></b>	<b><u>\$ 23,859</u></b>	<b><u>\$ 1,041,062</u></b>
<b>Net Outlays</b>				
Gross Outlays	\$ 6,209,024	\$ 361,936	\$ 328,382	\$ 6,899,342
Less: Offsetting Collections	42,615	-	341,296	383,911
Less: Distributed Offsetting Receipts (Note 18)	3,306	-	-	3,306
<b>Total Net Outlays (Note 18)</b>	<b><u>\$ 6,163,103</u></b>	<b><u>\$ 361,936</u></b>	<b><u>\$ (12,914)</u></b>	<b><u>\$ 6,512,125</u></b>



**U.S. Department of Justice  
Bureau of Prisons  
Required Supplementary Information  
Combining Statement of Budgetary Resources  
Broken Down by Major Budget Account  
For the Fiscal Year Ended September 30, 2010**

Dollars in Thousands	2010			
	<u>S&amp;E</u>	<u>B&amp;F</u>	<u>TF</u>	<u>Total</u>
<b>Budgetary Resources</b>				
Unobligated Balance, Brought Forward, October 1	\$ 60,428	\$ 269,511	\$ 42,112	\$ 372,051
Recoveries of Prior Year Unpaid Obligations	6,845	-	-	6,845
Budget Authority				
Appropriations Received	6,106,231	99,155	-	6,205,386
Spending Authority from Offsetting Collections				
Earned				
Collected	43,476	-	330,931	374,407
Change in Receivables from Federal Sources	(2,273)	-	268	(2,005)
Change in Unfilled Customer Orders				
Advance Received	(203)	-	-	(203)
Subtotal Budget Authority	<u>6,147,231</u>	<u>99,155</u>	<u>331,199</u>	<u>6,577,585</u>
Nonexpenditure Transfers, Net, Anticipated and Actual	(818)	-	-	(818)
<b>Total Budgetary Resources (Note 18)</b>	<b><u>\$ 6,213,686</u></b>	<b><u>\$ 368,666</u></b>	<b><u>\$ 373,311</u></b>	<b><u>\$ 6,955,663</u></b>
<b>Status of Budgetary Resources</b>				
Obligations Incurred				
Direct	\$ 6,062,966	\$ 144,893	\$ 328,281	\$ 6,536,140
Reimbursable	41,617	-	-	41,617
Total Obligations Incurred (Note 18)	<u>6,104,583</u>	<u>144,893</u>	<u>328,281</u>	<u>6,577,757</u>
Unobligated Balance - Available				
Apportioned	76,240	223,773	-	300,013
Exempt from Apportionment	-	-	45,030	45,030
Total Unobligated Balance - Available	<u>76,240</u>	<u>223,773</u>	<u>45,030</u>	<u>345,043</u>
Unobligated Balance Not Available	32,863	-	-	32,863
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 6,213,686</u></b>	<b><u>\$ 368,666</u></b>	<b><u>\$ 373,311</u></b>	<b><u>\$ 6,955,663</u></b>
<b>Change in Obligated Balance</b>				
Obligated Balance, Net - Brought Forward, October 1				
Unpaid Obligations	\$ 642,241	\$ 674,319	\$ 35,522	\$ 1,352,082
Less: Uncollected Customer Payments from Federal Sources	7,470	-	880	8,350
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	<u>634,771</u>	<u>674,319</u>	<u>34,642</u>	<u>1,343,732</u>
Obligations Incurred, Net	6,104,583	144,893	328,281	6,577,757
Less: Gross Outlays	6,036,846	360,577	340,359	6,737,782
Less: Recoveries of Prior Year Unpaid Obligations, Actual	6,845	-	-	6,845
Change in Uncollected Customer Payments from Federal Sources	2,273	-	(268)	2,005
Obligated Balance, Net - End of Period				
Unpaid Obligations	703,133	458,635	23,444	1,185,212
Less: Uncollected Customer Payments from Federal Sources	5,197	-	1,148	6,345
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 697,936</u>	<u>\$ 458,635</u>	<u>\$ 22,296</u>	<u>\$ 1,178,867</u>
<b>Net Outlays</b>				
Gross Outlays	\$ 6,036,846	\$ 360,577	\$ 340,359	\$ 6,737,782
Less: Offsetting Collections	43,273	-	330,931	374,204
Less: Distributed Offsetting Receipts (Note 18)	12,666	-	-	12,666
<b>Total Net Outlays (Note 18)</b>	<b><u>\$ 5,980,907</u></b>	<b><u>\$ 360,577</u></b>	<b><u>\$ 9,428</u></b>	<b><u>\$ 6,350,912</u></b>

This page intentionally left blank.

# U.S. DEPARTMENT OF JUSTICE

## BUREAU OF PRISONS

OTHER ACCOMPANYING INFORMATION  
(UNAUDITED)



This page intentionally left blank.



*Other Accompanying Information*

---

**TREASURY SYMBOL MATRIX**

15111060	Salaries and Expense
15101060	Salaries and Expense
15091060	Salaries and Expense
15081060	Salaries and Expense
15071060	Salaries and Expense
15061060	Salaries and Expense
1510/111060	Salaries and Expense
159/101060	Salaries and Expense
158/91060	Salaries and Expense
157/81060	Salaries and Expense
156/71060	Salaries and Expense
155/61060	Salaries and Expense
7515111060	Public Health Services
7515101060	Public Health Services
7515091060	Public Health Services
7515081060	Public Health Services
7515071060	Public Health Services
7515061060	Public Health Services
15X1003	Buildings and Facilities
15X8408	Revolving Trust Fund
15X1060	Salaries and Expense
15X6085	Deposit Fund (Prisoners)
15X8600	Violent Crime Reduction Program
151060	General Fund (Forfeiture Unclaimed)
151099	General Fund (Fines, Penalties, Forfeiture)
153220	General Fund (Miscellaneous Receipts)
151210	Conscience Fund
151299	Gifts to U.S.
151435	Miscellaneous Interest Received
15F3880.10	Clearing Account (Budget)
15F3875.10	Clearing Account (Budget)
15X6275.10	Deposit Fund (State/Local Taxes)
20X1807	BOP Refund Erroneously Received
20X6133	BOP Payment Unclaimed Money
15_7001	Elimination Fund
15_7002	Elimination Fund



*Other Accompanying Information*

**PRISONER CAPACITY REQUIREMENTS**

The numbers in the chart reflect the additional requested, funded, and partially funded capacity (number of beds) required for each established facility.

Note that the estimated construction completion dates supplied below are projections, not fixed dates. Also, once construction is completed at an institution, that institution does not immediately begin accepting inmates, as there are necessary activation and preparatory procedures that must be enacted beforehand.

REQUESTED, FUNDED, OR PARTIALLY FUNDED CAPACITY REQUIREMENTS											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
<b>ADDITIONAL CAPACITY:</b>											
FCI Mendota, CA (Medium/Camp)	600	552									1,152
FCI Berlin, NH (Medium/Camp)	328	952									1,280
FCI Aliceville, AL (Secure Female/Low Camp)	50	1,206									1,256
FCI Hazelton, WV (Medium/Camp)		328	952								1,280
USP Yazoo City, MS (High/Camp)		456	760								1,216
FY 2013 Beds (Camp)			128	128							256
FY 2013 Beds (Camp)			64	64							128
WX/Salt Lake City/Phoenix					500	500					1,000
USP Forrest City, AR (High/Camp)							736	480			1,216
USP El Reno, OK (High/Camp)							736	480			1,216
USP Bennettsville, SC (High/Camp)							128	480	480		1,088
FCI Leavenworth, KS (Medium/Camp)							856	552			1,408
USP Letcher County, KY (High/Camp)							480	736			1,216
USP North Central/Pekin, IL (High/Camp)								736	480		1,216
USP Southeast (High/Camp)								736	480		1,216
USP Mid-Atlantic (High/Camp)								736	480		1,216
FCI Florida (Medium/Camp)								856	552		1,408
FCI South Central (Medium/Camp)								856	552		1,408
FCI Northeast (Medium/Camp)								856	552		1,408
FCI South Central (Medium/Camp)								256	600	552	1,408
FCI Western (Medium/Camp)									856	552	1,408
USP Western (High/Camp)									736	480	1,216
<b>Total</b>	<b>978</b>	<b>3,494</b>	<b>1,904</b>	<b>192</b>	<b>500</b>	<b>500</b>	<b>2,936</b>	<b>7,760</b>	<b>5,768</b>	<b>1,584</b>	<b>25,616</b>

This exhibit includes facilities requested, funded, or partially funded capacity requirements through September 30, 2011.



*Other Accompanying Information*

**OPERATING LEASES AS OF SEPTEMBER 30, 2011 (IN THOUSANDS)**

<b>Operating Lease Identifier</b>		<b>Total Future Payments</b>
230 N First Avenue	Phoenix, AZ	\$ 638
230 N First Avenue	Phoenix, AZ	472
255 E Temple Street	Los Angeles, CA	51
501 I Street	Sacramento, CA	400
2880 Sunrise Boulevard	Rancho Cordova, CA	783
7338 Shoreline Drive	Stockton, CA	8,304
324 Horton Plaza	San Diego, CA	1,301
Via Excelencia Business Park	San Diego, CA	562
1190 E Cornell Avenue	Aurora, CO	25,084
320 First Street NW	Washington, DC	9,944
500 First Street NW	Washington, DC	36,024
200 Constitution Avenue NW	Washington, DC	394
3800 Camp Creek Parkway	Atlanta, GA	5,755
450 S Federal Street	Chicago, IL	18
5270 S Cicero Avenue	Chicago, IL	3,854
55 E Monroe Street	Chicago, IL	96
200 W Adams Street	Chicago, IL	549
318 S Federal	Chicago, IL	1,591
Fourth & State Avenue	Kansas City, KS	2,884
302 Sentinel Drive	Annapolis Junction, MD	9,751
300 S Fourth Street	Minneapolis, MN	83
1222 Spruce	St. Louis, MO	8
1222 Spruce	St. Louis, MO	11
36 E Seventh Street	Cincinnati, OH	422
200 Chestnut Street	Philadelphia, PA	2,003
1000 Liberty Avenue	Pittsburgh, PA	415
600 Arch Street	Philadelphia, PA	6
701 Market Street	Philadelphia, PA	565
125 South 2nd Street	Philadelphia, PA	4
801 Broadway	Nashville, TN	24
811 McGavock Street	Nashville, TN	2
701 San Jacinto Street	Houston, TX	86
701 San Jacinto Street	Houston, TX	307
15431 W Vantage Parkway, Suites 200 & 205	Houston, TX	575
727 E Durango Boulevard	San Antonio, TX	1,601
4211 Cedar Springs Road	Dallas, TX	9,420
Building A, 6810	Franconia, VA	556
796 N Foxcroft Avenue	Martinsburg, WV	3,086
		<u>\$ 127,629</u>